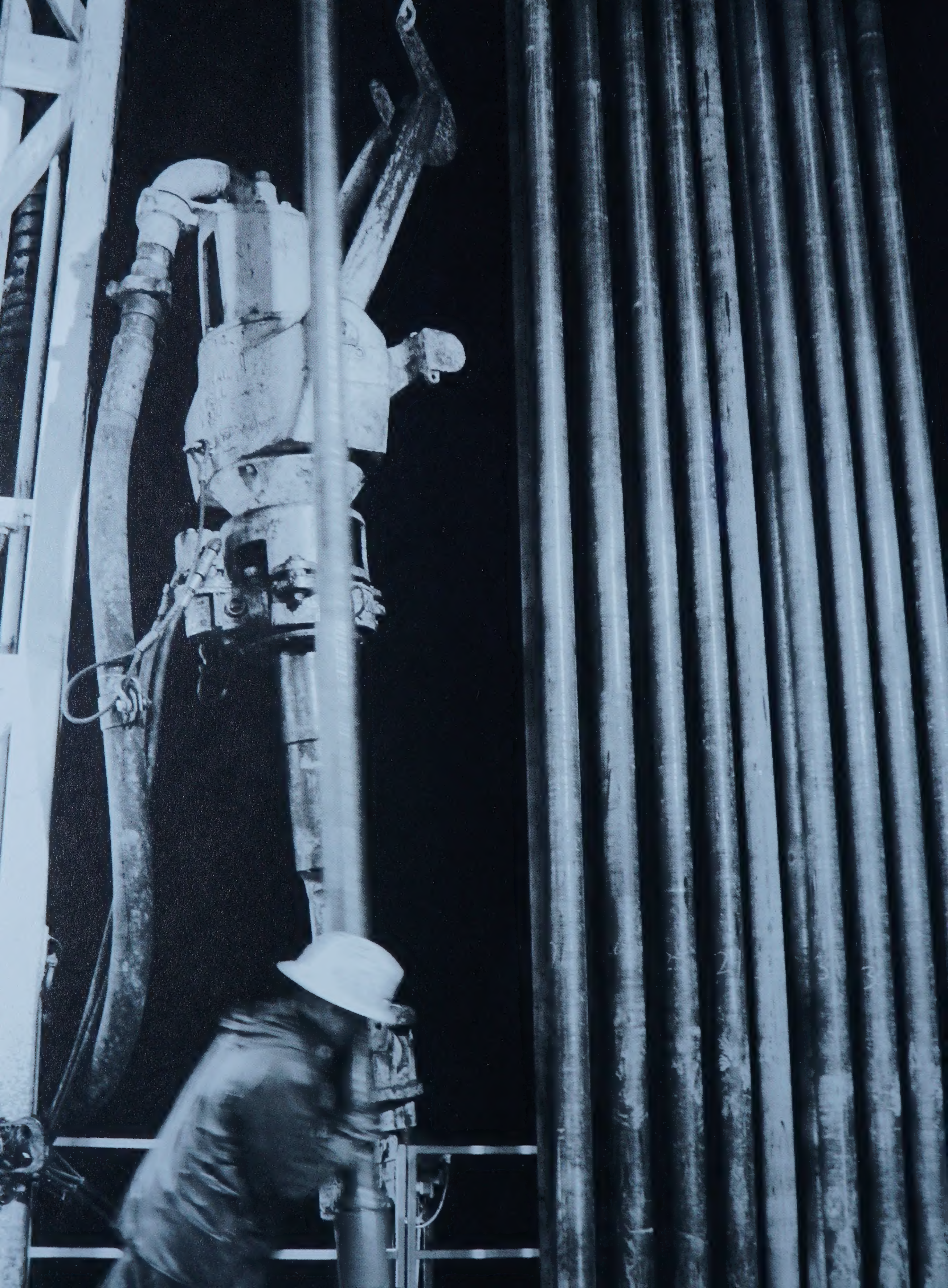
WE HAVE WHAT IT TAKES

Savanna Energy Services Corp.

2009 ANNUAL REPORT


TO COME
OUT OF
ADVERSITY
WITH
STRENGTH.


WE HAVE
long-term commitment
versatility
strategic vision
experience



long-term commitment

“ Savanna was built for the long term. We react to the shifts in the market for our services, but always with an eye on the long term success of our company. ”

The North American drilling market has undergone a radical shift in the past few years. Adapting to that shift, and repositioning our assets to continue to prosper has been a priority.

Savanna started out in 2001, with no assets and four employees, and has focused on attracting the best people and building the best equipment. Ongoing training ensures that all employees, new or established, have the knowledge and tools they need to excel. In tandem, Savanna continues to invest in best-in-class equipment, in the field and on the drawing board, to ensure a safe and efficient operation for our employees and customers alike.

CONTEMPORARY CAPITAL EQUIPMENT IN MILLIONS OF DOLLARS

870

One of the most modern equipment fleets in the industry

SAVANNA EMPLOYEES

2800

Savanna's in-house training and Coach programs ensure our employees are ready to do the job, wherever and whenever.

versatility

> All things being equal, the company with the best equipment and technology makes the sale. Savanna has the market's newest fleet of equipment, with the most innovative technology. As demand improves, we'll get more than our fair share.

Six new core areas for our services in the past 24 months, coupled with the roll-out of 4 ultra-deep doubles incorporating the most technologically advanced drilling equipment we have ever built.

Savanna cut its teeth in the highly-competitive shallow drilling market. We developed new approaches to increase the speed and efficiency of drilling, and developed the "go-to" rig for that purpose. We understood the inherent volatility of that market, and have expanded our deeper drilling capacity over the past 3 years, again with leading-edge technology. All the while, our well servicing group has continued to merge technology and consistent cashflows to underpin Savanna's growth.

WELL SERVICE RIGS

66

DRILLING RIGS

107

OPERATIONS MANAGEMENT

Geoff Tywoniuk
Vice President & General Manager, Savanna Drilling Conventional Division

Gene Carriere
Vice President & General Manager, Savanna Drilling Hybrid Division

Brad Kingston
Vice President & General Manager, Savanna Well Servicing

Steve Van Howe
Vice President & General Manager, U.S.A. Operations

Ken Goldade
General Manager, D&D Oilfield Rentals

strategic vision

"We continue to attract great people, our training culture is second to none and our strong partnerships with Aboriginal communities will allow us to excel in the field. This is where all our efforts and focus from 2009 will really pay off."

Since its inception, Savanna has had its sights set on international growth and expansion of its drilling and well servicing fleets. While that vision remains static, execution is subject to market forces. The growth in U.S. operations was expected to be incremental, but unexpected U.S. expansion opportunities and a weak Canadian marketplace combined to force a transfer of Canadian-based rigs into the U.S. market. The collapse in shallow drilling in North America has resulted in a similar focus on redeploying hybrid drilling rigs to active shallow drilling markets all over the world.

Whether it's a domestic First Nations rig partnership or marketing agreement, or establishing a new international base for growth, Savanna looks to building long term opportunities. A clear understanding of all of the interests and objectives of our partners, be they First Nation, customer, supplier or contractor, allows Savanna to maintain focus on the long term strategic growth of the Company. At the same time, radical dislocation of markets, customers or underlying business prospects may force changes in approach, but the overall course remains set.

NEW GROWTH CORE AREAS

Barnett
Carlyle Saskatchewan

Marcellus
Pennsylvania

Chicontepec
Poza Rica Mexico

Haynesville
Haughton Louisiana

Barnett
Dickenson North Dakota

Rental Division
Expanded from Alberta to Saskatchewan and North Dakota

MILLION DOLLAR BASE CONTRACT FOR AUSTRALIA

220

A confirmation of the hybrid technology and a launch pad for international growth.

DRILLING/WELL SERVICING RIGS IN ABORIGINAL PARTNERSHIPS

8

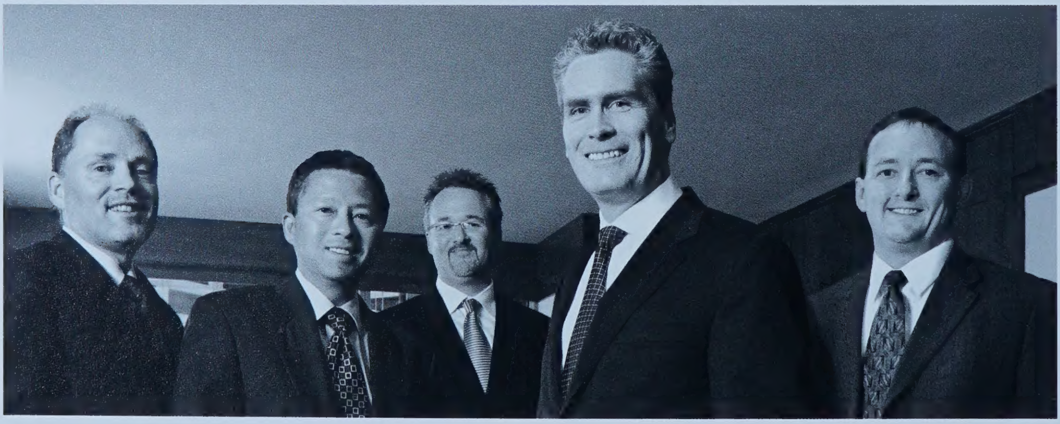
Creative partnership and marketing contracts continue to advance first nations position in our sector.

experience

"Our management team has depth and experience across multiple business cycles and many markets. This expertise allowed us to handle a challenging market well. We have an excellent strategy to make the most of Savanna's many assets."

The drilling and well servicing market in North America is not for the faint of heart. From peak market pressures to supply sufficient quality equipment and qualified personnel, to painfully depressed markets where maintaining people and equipment capital is a daily struggle, requires a unique set of management skills and experience.

MANAGEMENT TEAM



Left to right:

Darcy Draudson is the Vice President, Finance and CFO for Savanna, a role he has held since the inception of Savanna in 2001. Darcy is in charge of all financial accounting and reporting functions at Savanna as well as all treasury matters.

George Chow has been an officer with Savanna since its inception in 2001. In his role as Executive Vice President, Corporate he works closely with Dwayne LaMontagne on capital growth and corporate initiatives, and is also responsible for Savanna's corporate governance efforts.

Chris Oddy is the Vice President, Operations and COO for Savanna. Chris joined Savanna in 2001 and overseas North American operations. He has most recently been focused on the U.S. growth initiatives based out of the Houston office.

Ken Mullen has been the President & CEO of Savanna since its inception in 2001. He has been in the service industry for 15 years, prior to which he advised companies in the sector on taxation and corporate matters.

Dwayne LaMontagne joined Savanna in 2006 through the merger with Western Lakota where he was VP Finance and CFO. In his Chief Development Officer role Dwayne is focused on international business development and expansion as well as domestic capital, acquisition and growth initiatives.

Strong bonds require experience and a deep desire to share their views with the Company and management. Savanna has a strong entrepreneurial Board that has been through many industry cycles.

BOARD OF DIRECTORS

G. Allen Brooks
PRESIDENT
G. ALLEN BROOKS, LLC

Mr. Brooks is currently an adviser to Parks Paton Hoepfl & Brown, a boutique oilfield service investment banking firm. He has over four decades of experience in the oilfield services, energy, and investment industries, including extensive international expertise.

John Hooks
CHAIRMAN, PRESIDENT AND CEO
PHOENIX TECHNOLOGY INCOME FUND

Mr. Hooks is the President, CEO and Chairman of Phoenix Technology Income Fund a publicly traded oilfield services trust. He has over thirty years of experience in the Canadian and international oil and gas service industry.

Ken Mullen
PRESIDENT AND CEO
SAVANNA ENERGY SERVICES CORP.

Mr. Mullen is responsible for the overall direction and performance of the Company, reporting to the Board of Directors. He is one of the founding members. Mr. Mullen is a lawyer and chartered accountant.

Kevin Nugent
PRESIDENT
LIVINGSTONE ENERGY MANAGEMENT LTD.

Mr. Nugent is the President of Livingstone Energy Management Ltd, a private corporation which provides capital to oil and gas production and service companies. He is a Chartered Accountant with more than 20 years of experience in the oil and gas industry.

James Saunders (Chairman)
PRESIDENT AND CEO
TWIN BUTTE ENERGY LTD.

Mr. Saunders is President, CEO, and a director of Twin Butte Energy Ltd., a publicly traded junior oil and gas producer. He is an engineer with 26 years of diversified technical and managerial experience.

Tor Wilson
PRESIDENT AND CEO
BADGER INCOME FUND

Mr. Wilson is the President & CEO of Badger Income Fund, a provider of non-destructive excavating services. He has diverse experience in the areas of sales, product management, operations and financial matters. He has a B.ScF, an MBA and is a graduate of the Director Education program.

PRESIDENT'S MESSAGE

Over the past 2½ years the drilling market in North America has shifted dramatically. The advance of natural gas and oil drilling in unconventional, or shale, formations has effectively changed the nature, depth and location of drilling activity. The focus in at least the near term is on deeper directional and horizontal wells. The two most identifiable casualties of these trends have been natural gas prices and shallow natural gas drilling. These effects have been further exacerbated by the overall depressed economic conditions worldwide. In the face of these trends Savanna determined in 2008 to accelerate our exposure to shale and unconventional markets in North America, and to pursue international opportunities. These efforts were continued during 2009.

Roughly half of Savanna's drilling fleet is capable of addressing the deep deviated oil and gas shale drilling demand that is the current focus of North American activity. To access these plays Savanna has set up operations in close proximity to virtually all of the U.S. shale plays over the past 18 months. We now have operations bases in North Dakota (Bakken), Pennsylvania (Marcellus), Louisiana (Haynesville) and Texas (Barnett, Permian). In Canada, we have followed a similar strategy. Our deep drilling focus is centered in Saskatchewan (Bakken), Alberta (Deep Basin) and most recently Alberta (Cardium). With these focus areas of operations, we currently have approximately 85% of our deeper drilling rigs exposed to high activity basins. In fact, Savanna does not currently possess sufficient numbers of deeper high-capacity conventional drilling rigs to satisfy demand in Canada and the United States for this equipment. We are continuing to assess alternatives to address this shortfall, including potential acquisitions and/or building new rigs.

On the other hand, our hybrid drilling fleet has faced difficult operating conditions for over two years. While Savanna consistently garners far more than its pro rata share of shallow drilling activity, the low overall level of activity is simply insufficient to sustain acceptable utilization in the current market. As a result, Savanna has put a strong focus on uncovering and penetrating international markets able to benefit from the speed and efficiency of our hybrid fleet. From effectively a standing start in 2008 we have uncovered several promising areas where we believe the hybrid fleet can improve drilling efficiencies beyond existing drilling technologies. To date, our efforts have focused on S.E. Asia, South America and Russia. We believe there are opportunities to deploy up to one half our existing hybrid fleet in these areas over time.

"There's no doubt 2008 and 2009 were difficult years. In 2010, there are signs of recovery and from here on in, optimum results will go to those with strength to adapt."

In the case of well servicing utilization, it has not been as high as anticipated. Given our modern fleet and strong operations we are achieving utilization rates above industry average. Our expansion into North Dakota in 2008 continues as we have recently moved an additional 2 rigs into the market. We are currently running 8 rigs in North Dakota, from a standing start in 2008. We continue to assess other U.S. basins for similar greenfield expansion opportunities.

2009 for Savanna was clearly a year of transition, and we achieved several milestones during the year reflective of the strategies discussed above:

- In June, 2009 we completed a $126.8 million bought deal financing. This financing significantly improved Savanna's balance sheet, providing security and stability to the organization during a very slow market. The additional balance sheet capacity also provided flexibility to continue pursuing international expansion opportunities.
- In September, 2009 we transferred four of our highest specification double drilling rigs to the Chicontepec region of Mexico under an 18 month term contract.
- In December, 2009 we announced a five-year $A220 million drilling and well servicing contract to develop coal seam gas in Australia. This contract represented our first successful redeployment of our hybrid rigs outside of North America. We were the successful bidder among 50 participants, providing much-needed confirmation of the technical and efficiency qualities of our hybrid design. We strongly believe that this contract provides the necessary operational and financial base to support further expansion in the region.
- Also in December, 2009 we concluded a joint technology development agreement with a private government and operator-backed technology group directed at the development and expansion of coil drilling capabilities in directional and horizontal wells, focused primarily in the United States.

Savanna's employees and shareholders have faced substantial challenges over the past two years. The prospects for North American activity for the remainder of 2010 are uncertain, but appear much more positive than 1 year ago. At the same time, Savanna's efforts at positioning our domestic equipment to its highest and best use, and developing international work for that equipment that is suffering from low demand domestically, are beginning to bear fruit. Our entire management team is firmly focused on taking maximum advantage of the growing opportunity base before us. We have the resources, we have the people, and we are executing on our strategy to the maximum degree the market will allow. Savanna has what it takes.

Ken Mullen
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

MD&A

The following is a summary of selected financial information of the Company:

(Stated in thousands of dollars, except per share amounts)	2009	2008	2007
	$	$	$
OPERATING RESULTS			
Revenue	**256,619**	460,101	373,452
Operating expenses	**199,007**	320,821	232,937
Operating margin(1)	**57,612**	139,280	140,515
Impairment loss	**(27,370)**	(319,365)	(151,400)
Per share: basic	**(0.39)**	(5.39)	(2.56)
Per share: diluted	**(0.39)**	(5.39)	(2.56)
Net loss from continuing operations(2)	**(27,893)**	(280,660)	(84,920)
Per share: basic(2)	**(0.40)**	(4.73)	(1.44)
Per share: diluted(2)	**(0.40)**	(4.73)	(1.43)
Net earnings (loss)(2)	**(27,893)**	(280,660)	55,835
Per share: basic(2)	**(0.40)**	(4.73)	0.94
Per share: diluted(2)	**(0.40)**	(4.73)	0.94
CASH FLOWS			
Operating cash flows before changes in working capital(1)	**41,072**	107,619	111,488
Cash paid on acquisitions and on the purchase of property, equipment, intangibles and other assets	**(66,224)**	(172,514)	(187,134)
Dividends paid	**(6,902)**	(7,415)	(1,485)

FINANCIAL POSITION AT DECEMBER 31	2009	2008	2007
	$	$	$
Working capital(1)	**51,016**	85,610	25,971
Property and equipment(2)	**862,251**	889,158	746,063
Total assets(2)	**977,159**	1,038,231	1,180,092
Long-term debt	**70,107**	202,274	58,218

For the Year Ended December 31, 2009

This discussion focuses on key items from the consolidated financial statements of Savanna Energy Services Corp. ("Savanna" or "the Company") for the years ended December 31, 2009 and 2008, which have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion should not be considered all inclusive as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the Company's annual audited consolidated financial statements and the related notes for the fiscal year ended December 31, 2009, as well as the Cautionary Statement Regarding Forward-Looking Information found at the end of this discussion. Additional information regarding the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

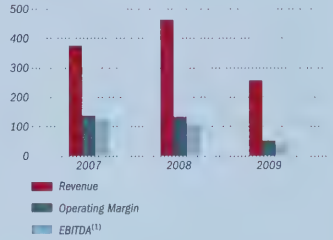
This MD&A is dated March 10, 2010.

Savanna is an oilfield services company operating throughout North America. The Company's overall business is conducted through two major divisions: contract drilling and oilfield services.

Financial Highlights 2009 Compared to 2008

Overall, 2009 represented one of the most challenging years ever faced by the oilfield services industry as significant increases in North American gas supplies were met with a sharp decline in demand as a result of the worldwide economic slowdown. The decline in demand for oilfield services in conventional basins in North America produced one of the least active first quarters in Canadian oilfield services in over a decade. This unprecedented low demand continued through the second quarter and, coupled with the normal seasonal effects of spring break-up, utilization levels in Canada were held at record lows. Activity levels did improve slightly during the third and fourth quarters of 2009 in both Canada and in the United States. In Canada, the number of wells and meters drilled in 2009 was less than half of that drilled in 2008 as Canadian activity levels overall for the industry continued to significantly lag those of the rest of North America and internationally.

FINANCIAL HIGHLIGHTS
($ million)



Savanna's challenges certainly mirrored those of the industry in 2009. With about 80% of its drilling rigs and 90% of its well servicing fleet based in Canada during the year, Savanna was negatively affected by the industry conditions in Canada to a greater extent than those with broader geographic operations. Furthermore, with approximately half of Savanna's drilling rig fleet focused on shallow drilling, the collapse of the Canadian shallow market in particular took an even greater toll on 2009 utilization rates. Overall, the decrease in demand for oilfield services led to a decrease in operating days, hours and rates in the Company's drilling and oilfield services divisions respectively compared to 2008, reducing year over year revenues and margins in each of the divisions. Despite all of this, Savanna's utilization rates, by every rig depth category, consistently exceeded industry averages, a testament to the quality of the crews and equipment Savanna possesses.

Fourth quarter and full year 2009 earnings were also negatively impacted as a result of non-cash impairment losses on the Company's surface/coring drilling rigs and coil tubing service units. Based on the long-term uncertainty surrounding these assets specifically, and their non-core nature, the Company deemed that they were permanently impaired and recognized a loss of $25,832. Certain related intangible assets were also considered to be permanently impaired which resulted in a further loss of $1,538. Subsequent to December 31, 2009, Savanna disposed of 2 coil tubing service units, reducing the fleet to 6 units currently.

Given the prevailing market conditions, in 2009 Savanna focused on cost reductions, rig redeployment to new basins, and balance sheet strengthening.

In Q2 and Q3 2009 Savanna took measures to more closely align its fixed operating and administrative costs with the decreases in activity levels. Some of the measures taken included: salary and wage roll backs of 2% to 26% for all non-rig related employees, a 20% reduction in its salaried workforce compared to January 2009, freezing of incremental capital expenditures, and deferral of elective equipment enhancements and re-certifications. The industry also took measures to align wages for drilling rig employees with the decreased operating activity. Effective May 1, 2009, the CAODC decreased recommended wage levels on average by approximately 15%. Savanna furthered this by implementing an average 6% reduction in wages for its service rig personnel. The changes had a positive effect on operating margin percentages for the remainder of 2009 as direct and indirect labour are the Company's largest operating expenses.

During the year, the Company also continued its efforts in deploying rigs into new markets to further diversify its operations geographically. In addition to increasing the number of rigs operating in the Permian basis in Texas, Savanna also sent 2 service rigs and a drilling rig to North Dakota and made its first entry into the growing Marcellus shale play by transferring one drilling rig under contract to Pennsylvania. In Q3 2009 Savanna completed its first expansion beyond Canada and the United States by deploying 4 drilling rigs into the

Chicontepec region of Mexico under an 18 month term contract. In the fourth quarter of 2009 the Company took steps to further diversify internationally, entering into a five year contract to deploy 2 hybrid drilling rigs and 2 service rigs to Queensland, Australia. These rigs are expected to begin operations in Q3 2010. The above rig deployments will improve Savanna's long-term positioning within the drilling and well servicing businesses.

To strengthen its balance sheet, and to provide the requisite capital to execute its strategic initiatives, the Company issued 20.1 million common shares on June 3, 2009 at a price of $6.30 per share for gross proceeds of $126.8 million. Savanna's balance sheet strength is evident at December 31, 2009. The Company has a debt-to-equity ratio of 9% and net debt[1] of $19.1 million on $869.4 million of capital assets. Savanna's financial position at the end of 2009 provides for considerable flexibility heading into 2010.

Financial Highlights 2008 Compared to 2007

Overall, 2008 was a mixed year for both Savanna and the oilfield services industry. After a bleak outlook to start the year the first quarter showed signs of a potential upswing in the industry only to be followed by an early and extended spring break-up. There were again signs of a potential improvement in oil and gas activity levels in Q3 2008 as oil commodity prices reached record highs. However, as the fourth quarter began so to did the worldwide credit and equity crisis which was quickly followed by a general economic slowdown and diminishing oil and natural gas commodity prices. Canadian activity levels continued to decrease in 2008 and with over 85% of its equipment based in Canada, Savanna suffered substantially as a result.

Despite all of these factors, the Company was able to increase revenues due to its larger equipment fleet and achieved higher than industry average utilization rates. The increase in revenues was offset by increased labour costs, fuel costs and cost of materials and other consumables used in running and maintaining Savanna's fleet.

In contrast with the decrease in Canadian activity, U.S. activity in 2008 held relatively steady through Q4. With an increased exposure to the most active U.S. basins, Savanna benefited slightly from this.

The economic slowdown and depressed oil and gas prices took a further toll on the Company's net earnings based on the results of impairment tests on goodwill and intangible assets on December 31, 2008. As a result of the industry slowdown and worldwide credit and equity crisis both the anticipated operating levels for 2009 and Savanna's market capitalization deteriorated dramatically. As a result, both goodwill and intangible assets became permanently impaired, resulting in a 2008 write-down of $309.6 million of goodwill (2007 – $128.6) and $9.8 million of intangible assets (2007 – $22.8).

MARKET TRENDS

Savanna's business depends significantly on the level of spending by oil and gas companies for exploration, development, production and abandonment activities. Sustained increases or decreases in the price of natural gas or oil could materially impact such activities, and thereby materially affect its financial position, results of operations and cash flows (see "Risks and Uncertainties" in this MD&A and "Risk Factors" in the Company's Annual Information Form).

Due to extreme fluctuations in the prices for both oil and natural gas, the oil and gas industry is subject to significant volatility. As a result of these varying commodity prices, there are continuous shifts by Savanna's customers between natural gas drilling and oil drilling and there remains significant uncertainty expressed by exploration and development companies regarding their drilling and completion budgets for 2010. In 2009 natural gas prices, which are the primary driver for Savanna's core market, have weakened drastically and, coupled with an expanded capital base in the energy services industry overall, activity levels have significantly decreased. In addition, the continuing worldwide general economic slowdown has reduced demand for all commodities, including oil and natural gas. The effects of this decrease in demand may decrease our customers' ability to access capital and fund their operations. Although commodity prices have improved recently, the outlook for the next year remains uncertain.

Savanna's business also depends heavily on the nature of wells drilled by its customers and their geographic focus. Dramatic shifts in well depths or core areas can, despite the mobility of drilling and well servicing equipment, temporarily disrupt the demand for Savanna's services. These shifts can occur rapidly, requiring a corresponding shift in Savanna's asset or geographic focus.

Savanna continues to assess further expansion of its fleet both domestically and internationally, weighing the potential diversification and expansion benefits, for both oilfield services and drilling, against the inherent economic, political and operating risks.

The following table outlines the Company's drilling and service rig fleet by type of rig:

As at December 31	2009	2008	Change
DRILLING RIGS			
Heavy and ultra-heavy telescoping doubles	**49**	45	4
Hybrid drilling	**46**	46	–
Triples	**2**	2	–
Pipe-arm single	**1**	1	–
Surface/coring	**9**	9	–
Total drilling rigs (gross)	**107**	103	4
Total drilling rigs (net)*	**103**	99	4
SERVICE RIGS			
Service rigs	**66**	66	–
Coil tubing service units	**8**	8	–
Total service rigs (gross)	**74**	74	–
Total service rigs (net)*	**72**	72	–

* 8 drilling rigs and 4 service rigs were owned in 50/50 limited partnerships at December 31, 2009 and 2008.

The Company also has a substantial inventory of drilling and well servicing-related rental assets and support equipment, as well as a machining and pipe-inspection facility.

The following outlines the Company's deployment of its drilling and service rig fleet by geographic location:

As at December 31	2009	2008	Change
DRILLING RIGS			
Canada	**86**	88	(2)
United States	**17**	15	2
Mexico	**4**	–	4
Total drilling rigs	**107**	103	4
SERVICE RIGS			
Canada	**66**	68	(2)
United States	**8**	6	2
Total service rigs	**74**	74	–

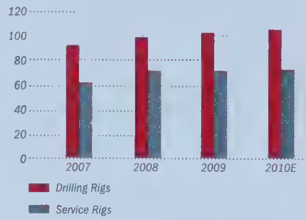
During 2009, all 4 drilling rigs from the Company's committed build program were completed. The rigs are ultra-heavy duty telescoping doubles.

However, the 2009 year was much more focused on redeployment than fleet expansion. In addition to redeploying rigs across provincial borders, several strategic moves across national borders were either undertaken or committed to in 2009.

During 2009, 4 drilling rigs and 2 service rigs were moved to the U.S. from Canada. The 2 double service rigs were deployed to North Dakota. Of the drilling rigs, 2 double rigs were deployed to Texas, 1 double rig to North Dakota, and the fourth to Pennsylvania, Savanna's first entry into the Marcellus shale play. In addition, 4 drilling rigs were deployed in Mexico with 2 of the rigs moving from Texas and the other 2 moving from Alberta. All of the drilling rigs moved to Mexico were high specification ultra-heavy doubles with moving systems.

COMPOSITION OF EQUIPMENT FLEET

(number of rigs)



In December 2009, the Company entered into a five year contract to, initially, deploy 2 hybrid drilling rigs from its Canadian fleet, and 2 new-build service rigs to Queensland, Australia. Savanna will modify 2 of its hybrid drilling rigs; the modifications, though extensive, are solely targeted to address local transportation and operating conditions in Australia. The service rigs to be supplied will be new-builds and are significantly different than our built-for-purpose Canadian and U.S. rigs. An additional 2 hybrid drilling rigs will also be modified for deployment in Australia to take advantage of the substantial expected expansion in this market for hybrid rigs.

For 2010, Savanna anticipates expending approximately $97.3 million on sustaining, maintenance and incremental capital, including the capital required for the following: 2 new service rigs for deployment in Australia; retrofitting 4 hybrid drilling rigs for deployment in Australia; retrofitting 2 hybrid drilling rigs as deep Range III singles; retrofitting 2 conventional double drilling rigs for deployment in the United States; 2 new conventional double drilling rigs; 4 new portable top drives; and 1 new flush-by service rig.

(Stated in thousands of dollars, except revenue per hour)	Three Months Ended			Twelve Months Ended		
December 31	2009	2008	Change	2009	2008	Change
Revenue	$ 68,477	$ 115,112	(41%)	$ 199,177	$ 373,785	(47%)
Operating expenses	$ 50,315	$ 80,763	(38%)	$ 156,980	$ 262,367	(40%)
Operating margin[1]	$ 18,162	$ 34,349	(47%)	$ 42,197	$ 111,418	(62%)
Operating margin %[1]	27%	30%		21%	30%	
Number of operating days*	3,704	5,289	(30%)	10,337	17,790	(42%)
Revenue per operating day	$ 18,487	$ 21,764	(15%)	$ 19,268	$ 21,011	(8%)
Number of spud to release days*†	3,098	4,318	(28%)	8,823	14,942	(41%)
Wells drilled†	503	1,540	(67%)	1,788	4,410	(59%)
Total meters drilled†	721,825	1,453,966	(50%)	2,188,274	4,327,712	(49%)
Utilization – Canada†	31%	47%	(34%)	22%	42%	(48%)
Utilization – International†	56%	79%	(29%)	48%	78%	(38%)
Canadian industry average utilization±	31%	43%	(28%)	24%	41%	(41%)

* The number of operating days and number of spud to release days are all on a net basis which means only Savanna's proportionate share of any rigs held in 50/50 limited partnerships have been included.

† Savanna reports its rig utilization based on spud to release time for the rigs and excludes moving, rig up and tear down time, even though revenue may be earned during this time. Savanna's rig utilization, spud to release days, wells drilled and total meters drilled exclude coring rigs as the operating environment is not comparable to the Company's other drilling rigs, nor to industry utilization drivers. However, these rigs are included in total fleet numbers.

± Source of industry figures: Canadian Association of Oilwell Drilling Contractors.

In the fourth quarter of 2009 Savanna's drilling division achieved its highest margin percentages compared to any of the three preceding quarters. Increases in operating days and revenue during the quarter compared to Q3 2009 were achieved in Canada, the U.S. and Mexico by both hybrid and conventional drilling rigs.

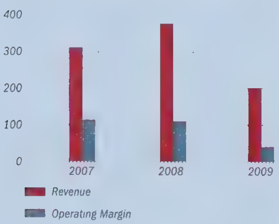
Despite the improvement from the prior quarter, year over year the continued downturn in the North American oil and gas industry resulted in a decrease in revenue, operating days and day rates compared to Q4 2008, despite a larger and more geographically diverse fleet. In Q4 2009 Savanna averaged a deployed fleet of 102 net rigs compared to the same period in 2008 when the Company operated an average fleet of 99 net rigs.

Operating costs per operating day were lower in the fourth quarter of 2009 compared to Q4 2008. The primary reasons for the improvement were the decreased wage levels recommended by the CAODC for the rig related employees which was effective on May 1, 2009 and the internal salary and wage roll backs of 2% to 26%, which included salaried rig employees, implemented on April 1, 2009. However, the decrease in activity and day rates more than offset the improvements in operating costs, lowering overall margins quarter over quarter.

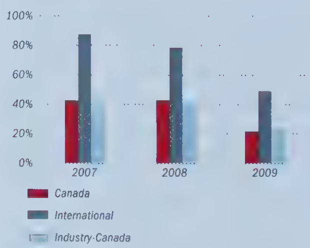
On a year to date basis Savanna operated an average fleet of 100 net rigs compared to 2008 when the average deployed drilling fleet was 96 net rigs. In 2009, downward pricing pressure and decreased industry activity in Canada and the U.S. coupled with relatively high operating costs in the first quarter of 2009 reduced operating margins compared to the year ended December 31, 2008. Since Q1 2009 Savanna has taken measures to reduce operating costs to more closely align these costs with the decreased operating activity. Variable operating costs for 2009 as a percentage of revenue are consistent with 2008. However, the fixed portion of operating costs during a period of lower activity levels negatively affected overall operating margins. These costs are more difficult to reduce while maintaining the Company's core operating capacity; however these costs are lower on a dollar basis in 2009 compared to 2008. Savanna will continue to address operating costs in the face of anticipated activity levels going forward.

DRILLING REVENUE AND MARGINS

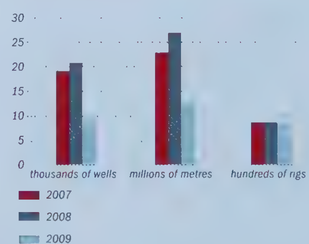
($ million)



DRILLING RIG UTILIZATION



CANADIAN DRILLING ACTIVITY



OILFIELD SERVIC

(Stated in thousands of dollars, except revenue per hour)	Three Months Ended			Twelve Months Ended		
December 31	2009	2008	Change	2009	2008	Change
Revenue	**$ 17,447**	$ 24,864	(30%)	**$ 59,551**	$ 84,201	(29%)
Operating expenses	**$ 11,928**	$ 17,927	(33%)	**$ 44,697**	$ 57,487	(22%)
Operating margin[1]	**$ 5,519**	$ 6,937	(20%)	**$ 14,854**	$ 26,714	(44%)
Operating margin %[1]	**32%**	28%		**25%**	32%	
Number of operating hours*	**24,012**	29,625	(19%)	**75,807**	107,382	(29%)
Revenue per hour	**$ 629**	$ 720	(13%)	**$ 657**	$ 746	(12%)
Utilization – Canada†	**37%**	47%	(21%)	**29%**	48%	(40%)
Utilization – U.S.†	**59%**	61%	(3%)	**57%**	62%	(8%)

* The number of operating hours is on a net basis which means only Savanna's proportionate share of any rigs held in 50/50 limited partnerships has been included.

† Utilization is based on standard hours of 3,650 per rig per year. The utilization rate excludes the coiled tubing service units since these units are not comparable in size or operations to the division's service rigs. Industry average utilization figures, specific to well servicing, are not available.

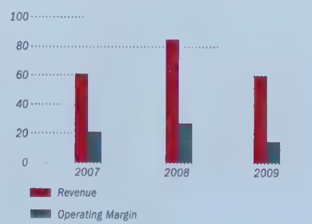
Savanna's oilfield services division achieved its highest operating margin percentages of any quarter in 2009 in the fourth quarter. Increases in operating hours, particularly in Canada, increased revenue during the quarter compared to Q3 2009. Despite the activity improvement from the prior quarter, the downturn in North American oil and gas industry activity and resulting decrease in demand for oilfield services decreased the division's revenue, operating hours and rates in Q4 2009 compared to the same period in 2008. However, even with lower operating hours and hourly rates, operating margin percentages were higher in the fourth quarter of 2009 than in 2008.

The increase in margin percentages is a result of the Company's efforts to reduce operating costs to more closely align these costs with the decreased operating activity. In fact, ignoring the effect of decreased hourly rates, variable operating costs as a percentage of revenue are lower in Q4 2009 compared to Q4 2008. The primary reason for the reduction quarter over quarter was the internal salary and wage roll backs of 2% to 26%, which included salaried rig employees, implemented on April 1, 2009 and a reduction in wages for all rig personnel of approximately 6% compared to the same period in 2008.

In Q4 2009 the oilfield services division's fleet size averaged 64 net service rigs, 8 coiled tubing service units and 34 boilers, compared to Q4 2008 when the division operated an average of 62.5 net service rigs, 8 coiled tubing service units, and 34 boilers.

As with the drilling division, downward pricing pressure and decreased industry activity during 2009 have negatively affected the division's operating results. Since Q1 2009 Savanna has taken measures to reduce operating costs to more closely align these costs with the decreased operating activity which resulted in lower operating costs for the remainder of 2009. For the year, ignoring the effect of decreased hourly rates, variable operating costs as a percentage of revenue are lower in 2009 compared to 2008 which is primarily a result of the salary and wage reductions described above. However as with the drilling division the fixed portion of operating costs at current lower activity levels has had a greater impact on overall operating costs in 2009 than in 2008. Overall the decrease in activity and rates more than offset the improvements in operating costs, lowering overall margins in 2009 compared to 2008.

OILFIELD SERVICES REVENUE AND MARGINS
($ million)



Included in the revenue for the three months ended December 31, 2009 is $2.4 million of rental asset revenue; Q4 2008 rental asset revenue was $3.5 million. Year to date rental asset revenue was $9.8 million compared to $4.1 million in 2008. The decrease quarter over quarter is due to the decrease in overall industry activity. The increase year over year is due to the timing of the acquisition of the rental assets which were acquired in late Q3 2008. Of the rental revenue, $0.6 million for the three months ended December 31, 2009 and $2.7 million for the year then ended is eliminated on overall consolidation as inter-segment revenue. Rental asset revenue is excluded from the per hour revenue calculations above.

(Stated in thousands of dollars)	Three Months Ended			Twelve Months Ended		
December 31	**2009**	2008	Change	**2009**	2008	Change
General and administrative expenses	**$ 5,459**	$ 13,261	(59%)	**$ 20,517**	$ 27,597	(26%)
as a % of revenue	**6.4%**	9.5%	(33%)	**8.0%**	6.0%	33%
Stock-based compensation	**$ 838**	$ 1,206	(31%)	**$ 4,450**	$ 3,980	12%
Depreciation and amortization[2]	**$ 12,214**	$ 14,403	(15%)	**$ 35,814**	$ 45,328	(21%)
Impairment loss	**$ 27,370**	$ 319,365	(91%)	**$ 27,370**	$ 319,365	(91%)
Interest on long-term debt	**$ 1,289**	$ 2,342	(45%)	**$ 5,119**	$ 6,979	(27%)
Other expenses	**$ 223**	$ 1,608	(86%)	**$ 433**	$ 1,690	(74%)
Income tax expense[2]	**$ (5,519)**	$ 386	(1530%)	**$ (8,198)**	$ 15,001	(155%)
Effective income tax rate	**23%**	28%	(18%)	**23%**	28%	(18%)

The decrease in general and administrative expenses in Q4 2009 compared with Q4 2008 is primarily a result of the salary and wage roll backs of 2% to 26% for all non-rig related employees implemented on April 1, 2009, as well as significant non-recurring tax planning, other advisory fees and bad debt expenses incurred in the last three months of 2008. These non-recurring amounts aggregated $1.2 million in Q4 2008, and $2.0 million for the full 2008 period while the Company's bad debt expense was $6.8 million in 2008 compared to $0.1 million in 2009; $6.3 million of the 2008 bad debt expense was allowed for in the fourth quarter. The increase as a percentage of revenue in the fourth quarter of 2009 compared to the same period in 2008, ignoring the non-recurring and bad debt expenses above, is due to the decrease in revenues quarter over quarter. On a year to date basis, again ignoring the non-recurring and bad debt expenses above, general and administrative expenses increased year over year, which reflects Savanna's expansion into new markets over the last twelve months as well as the timing of the salary roll backs being April 1, 2009. As with the quarter, for the year the increase in general and administrative expenses as a percentage of revenue is primarily a result of the decrease in revenues in 2009 compared to 2008.

The changes in stock-based compensation expense are a result of the timing of stock option and deferred share unit grants during 2008. Both share options and deferred share units were granted in late Q3 2008 which resulted in higher expenses in Q4 2008 compared to Q4 2009. The timing of the grants in 2008 led to an increase in the weighted average number of options and deferred share units outstanding this year compared to last. The split of stock-based compensation expense between stock options and deferred share units was $3.65 million and $0.8 million respectively compared to 2008 when nearly all of the expenses related to stock options.

Effective January 1, 2009, depreciation of well servicing rigs was changed to reflect an estimated useful life of 24,000 operating hours and a 20% salvage value. These rigs were previously depreciated on a straight-line basis over 10 to 15 years with a 20% salvage value. The change, while not material, was accounted for on a retrospective basis and more closely aligns the depreciation policies with those of the Company's drilling rigs which are depreciated based on operating days. The effect of the change on individual financial line items

is detailed in Note 2 at the end of this MD&A. Therefore, the overall decrease in depreciation and amortization for the three and twelve months ended December 31, 2009 compared to the same periods in 2008 is primarily a result of the decrease in activity, as a large portion of the Company's assets are depreciated based on operating days or hours.

In the fourth quarter of 2009 the Company determined that indications of impairment existed on its under utilized surface/coring drilling rigs and coil tubing service units. These non-core business units were added as a result of the 2006 merger with Western Lakota Energy Services Inc. Through most of 2009 the oil and gas industry was negatively affected by external factors such as depressed oil and natural gas demand and pricing leading to lower industry activity levels and utilization rates. Despite recent signs of improving industry conditions overall, the market for theses types of equipment specifically remains uncertain. As a result, an impairment loss of $25,832 has been included in the consolidated statement of net loss. Additionally, at December 31, 2009 and 2008 impairment tests were performed on intangible assets; these tests indicated that the carrying amounts of certain of these assets exceeded their fair values. As a result, a loss of $1,538 (2008 – $9,740) relating to intangible asset impairment has been included in the consolidated statement of net loss. On December 31, 2008 an impairment test was also performed on goodwill which resulted in a loss of $309,625. The impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows and were based on information that was available at December 31, 2009 and 2008.

The decrease in interest expense for the three and twelve months ended December 31, 2009 compared to the same periods in 2008 is primarily a result of the average balances outstanding on the Company's committed revolving debt facility. The proceeds of the June 2009 equity financing were used to pay down the outstanding balance on the debt facility which decreased the amounts owing significantly in the latter half of 2009 compared to 2008.

The year over year breakdown of other expenses is as follows:

For the year ended December 31 (Stated in thousands of dollars)	**2009**	2008	Change
	$	$	
Losses on disposal of assets	**169**	901	(81%)
Inventory write down of obsolete parts	**165**	–	100%
Foreign exchange losses	**99**	789	(87%)
	433	1,690	(74%)

The decrease in foreign exchange losses is primarily a result of the Company reclassifying its foreign operations from integrated to self-sustaining in mid 2008 after certain organizational, operational, financial and administrative changes occurred. As a result of the change, exchange gains and losses arising on the translation of assets and liabilities are now included in other comprehensive income ("OCI"). The decrease in losses on asset disposals is a result of far fewer asset disposals in 2009 compared to 2008.

The significant reduction in income tax expense is a result of the decrease in activity levels and the resulting lower net earnings in 2009 compared to 2008. In addition, the impairment losses in 2008 had no tax effect as these were non-taxable items. However, nearly all of the impairment losses in 2009 related to capital assets, and were taxable losses. Furthermore, the reductions in the Canadian tax rate for 2009 and future years have been somewhat offset by the higher U.S. tax rates the Company expects to realize with its increasing operations in that country. The Company's operations are complex and computation of the provision for income taxes involves tax interpretations, regulations, and legislation that are continually changing. There are matters that have not yet been confirmed by taxation authorities; however, management believes the provision for income taxes is adequate.

In addition to other market factors, quarterly results of Savanna are markedly affected by weather patterns throughout its operating area in Canada. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter. As a result of this, the variation on a quarterly basis, particularly in the first and second quarters, can be dramatic year-over-year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters.

Summary of Quarterly Results

(Stated in thousands of dollars, except per share amounts)

Three Months Ended	Dec-31 2009	Sep-30 2009	Jun-30 2009	Mar-31 2009	Dec-31 2008	Sep-30 2008	Jun-30 2008	Mar-31 2008
	$	$	$	$	$	$	$	$
Revenue	85,430	50,350	27,045	93,794	139,746	122,205	48,990	149,160
Operating expenses	61,611	40,208	26,627	70,561	98,152	84,207	43,365	95,097
Operating margin(1)	23,819	10,142	418	23,233	41,594	37,998	5,625	54,063
Operating margin %(1)	28%	20%	2%	25%	30%	31%	11%	36%
Impairment loss	(27,370)	–	–	–	(319,365)	–	–	–
Per share: basic	(0.35)	–	–	–	(5.40)	–	–	–
Per share: diluted	(0.35)	–	–	–	(5.40)	–	–	–
Net earnings (loss)(2)	(18,055)	(4,548)	(8,899)	3,609	(310,980)	11,285	(6,550)	25,585
Per share: basic(2)	(0.23)	(0.06)	(0.14)	0.06	(5.26)	0.19	(0.11)	0.43
Per share: diluted(2)	(0.23)	(0.06)	(0.14)	0.06	(5.26)	0.19	(0.11)	0.43
Total assets(2)	977,159	983,783	974,192	1,019,841	1,038,231	1,306,339	1,234,481	1,243,159
Long-term debt	70,107	57,263	50,872	176,501	202,274	183,301	125,423	119,428

QUARTERLY FINANCIAL HIGHLIGHTS
($ million)

FINANCIAL CONDITION AND LIQUI

The market risks outlined under "Market Trends" and under "Risks and Uncertainties" in this MD&A can significantly affect the financial condition and liquidity of the Company. Savanna's ability to access its debt facilities is directly dependent on, among other factors, its total debt to equity ratios and trailing cash flows. Additionally, the ability of Savanna to raise capital through the issuance of equity could be restricted in the face of continuing volatility in worldwide capital markets or in the energy related capital markets specifically.

Savanna's primary objective of managing capital, given the cyclical nature of the oil and gas services business, is to preserve the Company's financial flexibility in order to benefit from potential opportunities as they arise and in turn maximize returns for Savanna shareholders. This objective is achieved by: prudently managing the capital generated through internal growth; optimizing the use of lower cost capital; raising share capital when required to fund growth initiatives; and a conservative approach to safeguarding the Company's assets.

Although Savanna cannot anticipate all eventualities in this regard, the Company maintains what it believes to be a conservatively leveraged balance sheet and makes every effort to ensure a balance between maximizing returns for its shareholders over both short-term and long-term activity levels in the oil and gas services business.

Working Capital and Cash Provided by Operations

(Stated in thousands of dollars)	Three Months Ended			Twelve Months Ended		
December 31	**2009**	2008	Change	**2009**	2008	Change
	$	$		**$**	$	
Operating cash flows before changes in working capital[1]	**24,157**	29,161	(17%)	**41,072**	107,619	(62%)
Per diluted share	**0.31**	0.49	(37%)	**0.58**	1.81	(68%)
Increase (decrease) in cash, net of bank indebtedness	**95**	6,093	(98%)	**(10,341)**	11,525	(190%)

The Company's operating cash flows are closely related to its operating margins and general and administrative expenses; consequently the decreases in operating cash flows for the three and twelve month periods ending December 31, 2009 are directly related to the decreases in operating margins less general and administrative expenses in the same respective periods. Therefore, downward pressures on overall activity and pricing year over year pushed operating cash flows before changes in working capital lower in Q4 2009 compared with Q4 2008. That being said, Savanna generated more operating cash flow in Q4 2009 than in any other quarter in 2009 as a result of increased activity and lower costs compared to the first three quarters of the year.

(Stated in thousands of dollars)	**2009**	2008	Change
As at December 31	**$**	$	
Working capital held outside of partnerships	**50,987**	81,307	(30,320)
Working capital held in partnerships*	**29**	4,303	(4,274)
Working capital[1]	**51,016**	85,610	(34,594)

* Working capital held in limited partnerships owned 50% by the Company. The amount presented is the Company's proportionate share.

The decrease in working capital is primarily a result of accounts receivable collection since December 31, 2008. Savanna's net debt[1] position at December 31, 2009 was $19.1 million.

Investing Activities

(Stated in thousands of dollars)

December 31	Three Months Ended 2009	2008	Change	Twelve Months Ended 2009	2008	Change
	$	$		$	$	
Purchase of property and equipment	**(8,328)**	(21,796)	(62%)	**(64,471)**	(77,440)	(17%)
Purchase of intangibles and other assets	**(487)**	(1,543)	(68%)	**(1,753)**	(4,719)	(63%)
Cash paid on acquisitions, net of cash acquired	–	(6,500)	(100%)	–	(90,355)	(100%)
	(8,815)	(29,839)	(70%)	**(66,224)**	(172,514)	(62%)

The property and equipment purchases for the quarter and year ended December 31, 2009 are primarily associated with finalizing the manufacture of the 4 drilling rigs and retrofitting drilling and service rigs for use in different geographical areas as described under "Equipment Fleet" in this MD&A. The 2008 property and equipment purchases related to completing the construction of 3 drilling rigs and 1 service rig in Canada, retrofitting drilling rigs for use in different geographical areas, the manufacture of 6 service rigs for work in the U.S. and commencing the 4 drilling rig builds that were completed in 2009.

The purchase of intangibles and other assets in 2009 and 2008 relate entirely to rig re-certification costs incurred in each year which are classified on the balance sheet as other assets.

The acquisitions completed in 2008 included the purchase of all the assets of three separate privately held companies. Among the assets acquired were 3 service rigs in Saskatchewan, 5 drilling rigs in the U.S. and a substantial inventory of drilling and well servicing-related rental assets and support equipment, as well as a machining and pipe-inspection facility, in Alberta.

Financing Activities

(Stated in thousands of dollars)

	Three Months Ended 2009	2008	Change	Twelve Months Ended 2009	2008	Change
	$	$		$	$	
Proceeds from stock options exercised	–	–	–	–	2,552	(100%)
Proceeds from share issue, net of share issue costs	–	–	–	**120,031**	–	100%
Shares repurchased	–	(4,494)	(100%)	–	(8,630)	(100%)
Issuance of long-term debt	**15,000**	36,394	(59%)	**25,000**	226,745	(89%)
Repayment of long-term debt	**(577)**	(27,816)	(98%)	**(146,982)**	(93,986)	56%
Dividends paid	**(1,977)**	(1,474)	34%	**(6,902)**	(7,415)	(7%)

At the date of this report, the number of common shares outstanding was 79.1 million and the number of stock options outstanding was 4.0 million, the proceeds from which, if exercised, would be $58.0 million.

On June 3, 2009 the Company issued 20.1 million common shares at a price of $6.30 per share for gross proceeds of $126.8 million on a bought-deal basis with a syndicate of underwriters.

Savanna had long-term debt outstanding of $62.6 million at December 31, 2009 (2008 – $184.2 million), excluding the $7.5 million (2008 – $18.1 million) current portion thereof. Proceeds from the June 2009 share issue and cash received on the collection of accounts receivable were used to pay down the outstanding balance on the facility in 2009. In 2008, the funds drawn on the Company's debt facilities were primarily used to fund the business acquisitions and capital expenditures discussed above under the heading "Investing Activities".

At December 31, 2009 $10.3 million was drawn on the Company's swing-line operating facility and at the date of this report $11.7 million was drawn on the swing-line. Subsequent to the end of the year, the total amount available under the facility was reduced to $175 million at Savanna's request; $15 million remains committed to the swing-line operating facility. At the date of this report, $86.0 million was drawn on the Company's committed term revolving credit facility.

In Q4 2009 the Company declared and paid $2.0 million in dividends bringing total dividends paid in 2009 to $6.9 million. Subsequent to the end of the year, Savanna determined to suspend paying dividends on its common shares after the March 2010 distribution to free up cash flow to enable the Company to pursue its many strategic opportunities. The annualized savings from this decision will be approximately $8 million.

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations, primarily related to short-term and long-term indebtedness. The expected maturities of the Company's contractual obligations, including interest, are as follows:

(Stated in thousands of dollars)

For the period ended	Jun-30 2010	Dec-31 2010	Dec-31 2011	Dec-31 2012	Dec-31 2013	**Total**
	$	$	$	$	$	**$**
Bank indebtedness	11,228	–	–	–	–	**11,228**
Accounts payable and accrued liabilities	35,874	–	–	–	–	**35,874**
Long-term debt*	2,503	7,966	25,773	40,247	–	**76,489**
Operating leases	1,223	1,453	2,180	1,539	–	**6,395**
Construction commitments	62,994	32,400	–	–	–	**95,394**
	113,822	41,819	27,953	41,786	–	**225,380**

* Assumes the Company's term revolving credit facility is not renewed in 2010. Interest payments required on the term revolving credit facility are estimated based on an assumed static prime rate of interest of 2.25%.

For 2010 and the foreseeable future, the Company expects cash flow from operations, working capital and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

CONTINGENCIES

At December 31, 2009, the Company was subject to legal claims with respect to the Company's patents. Subsequent to the end of the year Savanna entered into a definitive agreement to settle all outstanding patent and related civil litigation. The key terms of the settlement involve the withdrawal of the challenges to Savanna's Canadian Patent with respect to certain specific hybrid coiled tubing drilling technology and acknowledgement that Savanna is the owner of the patent. In exchange, the counterparties have received licenses to the hybrid coiled tubing drilling technology, subject to certain terms and conditions. The settlement of these legal claims was not material to the Company's financial position or operating results.

The Company was subject to additional legal claims at December 31, 2009 and, although the outcome of these matters is not determinable at this time, the Company believes the claims will not have any material adverse effect on the Company's financial position or operating results.

During the three and twelve months ended December 31, 2009:

Lease revenue, management fees and other fees in the amount of $0.3 million (2008 – $0.7 million), net of inter-company eliminations, were received from partnerships that are 50% owned by the Company in Q4 2009 bringing the total received for the year ended December 31, 2009 to $1.3 million (2008 – $2.7 million). Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of earnings. These transactions were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties.

In June 2008 the Company provided a $3.0 million home relocation loan to an officer who had relocated to another city on behalf of the Company. The full amount was due on June 30, 2009 and was interest free if paid by that date. In Q2 2009 the officer paid $1.6 million on the loan. The remaining $1.4 is included in accounts receivable and bears interest at prime, which was 2.25% at December 31, 2009. The loan receivable is secured by a first charge mortgage over various properties owned by the officer, the fair value of which is estimated to exceed the fair value of the loan. This related party transaction was not in the normal course of operations and has been recorded in these financial statements at the carrying amount of the asset.

The Company's primary activity is the provision of contract drilling and oilfield services to the oil and gas industry in Canada and the United States. The demand, price and terms of contract drilling services are dependent on the level of activity in this industry, which in turn depends on several factors, including:

- Crude oil, natural gas and other commodity prices, markets and storage levels;
- Expected rates of production and production declines;
- Discovery of new oil and natural gas reserves;
- Availability of capital and financing;
- Exploration and production costs;
- Pipeline capacity and availability;
- Manufacturing capacity and availability of supplies for rig construction; and
- Government imposed royalties and taxes.

Other risk factors that affect the oil and gas industry and the Company are as follows:

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services largely depend upon the level of industry activity for Canadian natural gas and, to a lesser extent, oil exploration and development. Industry conditions are influenced by numerous factors over which the Company has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for drilling and well servicing services to oil and gas customers. A material decline in oil or gas prices or Canadian industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Any addition to or elimination or curtailment of government incentives could have a significant impact on the oilfield services industry in Canada.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues.

There is greater demand for oilfield services provided by the Company in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Company may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. Volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Reliance on Key Personnel

The success of the Company is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Company. The ability of the Company to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Workforce Availability

The Company's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Aboriginal partnerships that the Company has formed have provided access to a large, capable workforce of Aboriginal employees. The Company strives to retain employees by providing a safe working environment, competitive wages and benefits, employee savings plans and an atmosphere in which all employees are treated equally regarding opportunities for advancement. The Company also operates an innovative drilling rig training program designed to provide inexperienced individuals with the skills required for entry into the drilling and well servicing industry.

Competition

The oilfield services industry is highly competitive and the Company competes with a substantial number of companies which have greater technical and financial resources. The Company's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Company or that new competitors will not enter the various markets in which the Company is active. In certain aspects of its business, the Company also competes with a number of small and medium-sized companies, which, like the Company, have certain competitive advantages such as low overhead costs and specialized regional strengths. Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to the Company. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an affect upon the Company's ability to generate revenue and earnings.

Environmental Liability

The Company is subject to the operating risks inherent in the industry, including environmental damage. The Company has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Company may have the benefit of insurance maintained by it or the operator; however the Company may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

Operating Risk and Insurance

The Company has an insurance and risk management program in place to protect its assets, operations and employees. The Company also has programs in place to address compliance with current safety and regulatory standards. However, the Company's operations are subject to risks inherent in the oilfield services industry such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, financial condition, results of operations and cash flows could be materially adversely effected.

Vulnerability to Market Changes

Fixed costs, including costs associated with operating losses, leases, labour costs and depreciation will account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Potential Replacement or Reduced Use of Products and Services

Certain of the Company's equipment may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Company will need to keep current with the changing market for oil and gas services and technological and regulatory changes. If the Company fails to do so, this could have a material adverse affect on the Company's business, financial condition, results of operations and cash flows.

Technology Risks

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over the Company. The Company relies on proprietary technology in respect of aspects of its oilfield services, particularly coiled tubing drilling. The Company has been granted patent protection in Canada and in the United States in respect of certain of such technology. No assurances can be given that the proprietary nature of the technology can be adequately protected.

Dependence on Suppliers

Failure of suppliers to deliver equipment in a timely and efficient manner would be detrimental to the Company's ability to keep customers and to grow. In addition, certain equipment is manufactured specifically for the Company and the Company is dependent upon the continued availability of the manufacturer and the maintenance of the quality of manufacture. No assurances can be given that the Company will be successful in maintaining its required supply of equipment.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and gas products, and any major changes could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Climate Change

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established there under to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so called "greenhouse gases". There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Recently, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. The result of such meeting was the Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol. The Company's Canadian exploration and production customers' facilities and other operations and activities emit greenhouse gases and are required to comply with Alberta's greenhouse gas emissions legislation contained in the Climate Change and Emissions Management Act and the Specified Gas Emitters Regulation. The Company and its customers will also be required to comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which are now expected to be consistent with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect compliance and costs of these regulations could have a material adverse affect on the Company's business, financial condition, results of operations and cash flows. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non core assets are periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non core assets, certain non core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

Access to Additional Financing

The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Company's growth and could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009, these factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

Dividends

The Company's ability to continue making cash dividends is entirely dependent on, among other things, the cash flow, results of operations and financial condition of the Company, the need for funds to finance ongoing operations and other considerations as the board of directors of the Company considers relevant.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in U.S. dollars and Mexican pesos. In addition, the Company's U.S. and Mexican subsidiaries are subject to translation gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's foreign operations are included in OCI. At December 31, 2009, the Company had $9,041 Canadian dollar equivalent of working capital denominated in foreign currencies. The Company also holds $40,000 of U.S. dollar denominated debt which it uses to manage the exposure to foreign exchange gains and losses arising from the translation of its self-sustaining U.S. operations included in OCI.

Interest Rate Risk

The Company is exposed to interest rate risk on a portion of its notes receivable and long-term debt and does not currently hold any financial instruments that mitigate this risk. The Company's floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market interest rates. The Company's fixed-rate notes receivable and fixed-rate debt are subject to interest rate price risk, as the values will fluctuate as a result of changes in market interest rates. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates. Of the Company's total notes receivable at December 31, 2009 16% was fixed-rate and 84% was floating-rate. Of the Company's total debt at December 31, 2009, 4% was fixed-rate debt and 96% was floating-rate debt. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

Credit risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers and partners in the form of outstanding accounts and notes receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

As stated above, the carrying amount of accounts receivable reflects management's assessment of the credit risk associated with its customers. The Company generally grants unsecured credit to its customers; however, the Company applies rigorous evaluation procedures to all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable. When a receivable balance is considered uncollectible it is written off against the allowance for doubtful accounts. Subsequent recovery of amounts previously written off is included in net earnings.

Based on the nature of its operations, Savanna will always have a concentration of credit risk as a substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. For the year ended December 31, 2009, ten customers comprised 54% of revenue (2008 – 48%) and 39% of accounts receivable (2008 – 53%). In the same period, one customer comprised 10% of revenue (2008 – 12%) and 5% of accounts receivable (2008 – 14%). At December 31, 2009, approximately 86% of trade accounts receivable had been outstanding for less than 90 days.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company maintains what it believes to be a conservatively leveraged balance sheet and can finance any future growth through one of or a combination of internally generated cash flows, borrowing under existing credit facilities, the issuance of debt or the issuance of equity, according to its capital management objectives. Given the Company's currently available liquid resources as compared to its contractual obligations, management assesses the Company's liquidity risk to be low.

CRITICAL ACCOUN[illegible]

This MD&A is based on the consolidated financial statements which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenues and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. Management considers the following to be the most significant of these estimates:

Depreciation and Amortization

The accounting estimate that has the greatest effect on the Company's financial results is the depreciation of capital assets and asset impairment write-downs, if any. Depreciation of capital assets is carried out on the basis of the estimated useful lives of the related assets. Equipment under construction is not depreciated until it is put into use. Included in capital assets is equipment acquired under capital leases. All equipment is depreciated based on the straight-line method, utilizing either years, operating days, in the case of drilling equipment, or operating hours, in the case of well servicing equipment. All equipment is depreciated net of expected residual values of 10% – 20%.

Assessing the reasonableness of the estimated useful lives of property and equipment requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. Additionally, the Company canvasses its competitors to ensure it utilizes methodologies and rates consistent with the remainder of the sector in which Savanna operates. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates.

A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

Stock-Based Compensation

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility and share prices.

Stock compensation expense also includes the value of deferred share units ("DSU's") held by directors and officers and outstanding at the end of the year. DSU's are recognized when vested and valued on a mark-to-market basis. DSU's will be settled in cash on the date the director ceases to be a director of the Company or within 120 days of termination of an officer.

Provision of Doubtful Accounts Receivable

The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Goodwill

At December 31, 2008 the remaining amount of goodwill on the company's consolidated balance sheet was deemed to be impaired and as a result was written off. The write-off was a result of management's best estimate as at December 31, 2008 and is subject to measurement uncertainty. Goodwill is the amount that results when the cost of acquired assets exceeds their fair values, at the date of acquisition. Goodwill is recorded at cost, not amortized, and tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

Intangible Assets

Intangible assets consist of the value attributed to customer relationships and non-competition agreements plus the costs associated with securing the Company's intellectual property rights. The initial valuation of intangibles at the closing date of any acquisition requires judgment and estimates by management with respect to identification, valuation and determination of expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit. Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. Based upon assessments at December 31, 2009 and 2008 respectively, virtually all of the Company's intangible assets were determined to be impaired and as a result were written down. The write down's were a result of management's best estimate as at December 31, 2009 and 2008 respectively and are subject to measurement uncertainty.

ACCOUNTING POLICIES

The significant accounting policies are the same as those set out in the Company's annual audited consolidated financial statements. During the year, the Company changed an accounting policy and adopted several new accounting policies as follows:

Property, Equipment and Depreciation

Effective January 1, 2009, depreciation of well servicing rigs was changed to reflect an estimated useful life of 24,000 operating hours and a 20% salvage value. These rigs were previously depreciated on a straight-line basis over 10 to 15 years with a 20% salvage value. The change in methodology was made to provide more relevant information by depreciating the assets based on usage rather than straight-line over a set number of years as such a depreciation policy did not properly match the economic usage of the well servicing rigs. The change, while not material, has been accounted for on a retrospective basis and more closely aligns the depreciation policies with those of the Company's drilling rigs which are depreciated based on operating days. The effect of the change on individual financial line items is detailed in Note 2 at the end of this MD&A.

Goodwill and Intangibles

Effective January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs", with no restatement of prior period financial statements. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company's accounting policies with respect to goodwill and intangibles were unchanged on adoption of this section.

Financial Instruments

Effective January 1, 2009, the Company adopted CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173"). EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

In addition, the Company adopted the CICA's amendments to accounting standard 3862, Financial Instruments – Disclosures which include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments.

The new or amended guidance did not have any impact on the financial position or earnings of the Company.

The following are GAAP changes that have been issued by the CICA but are not yet effective:

International Financial Reporting Standards

The CICA Accounting Standards Board ("AcSB") confirmed that January 1, 2011 will be the effective date for complete convergence of current GAAP to International Financial Reporting Standards ("IFRS"). Therefore, the Company will be required to report using the converged standards for its interim and annual financial statements in 2011; as such the 2010 comparative figures must also comply with the new standards.

The eventual changeover to IFRS represents a change due to new accounting standards and is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is continually assessing the effect of the planned convergence; however, the effect on the future financial position and results of operations is not reasonably determinable or estimable at this time.

The following are the key elements and timing of the Company's IFRS changeover plan:

Key Activity	Timing	Current Status
Financial reporting		
Identify differences in Canadian GAAP and IFRS and affect on current accounting policies	Initial assessment completed; will be updated for changes up to Q4 2010	Significant differences and accounting policy choices identified; see below for a summary of the significant areas expected to affect Savanna on conversion
Determine which IFRS 1 exemptions will be relied upon	Initial assessment completed; will be updated for changes up to Q4 2010	Exemptions relevant to Savanna identified; see below for a summary of the significant exemptions Savanna intends to rely on
Prepare accounting policies in accordance with IFRS	To be completed by Q4 2010	Policies with minimal differences have been conformed to IFRS; first draft of policies under IFRS to be completed by Q2 2010
Create financial statements in accordance with IFRS	To be completed by Q4 2010	Not yet started; first draft of financial statements under IFRS to be completed by Q2 2010
Quantify effects of adopting IFRS	To be completed by Q4 2010 for preparing IFRS 1 disclosures and 2010 comparative figures	Quantification of certain retrospective adjustments has begun; see below.

Key Activity	Timing	Current Status
Information systems		
Determine whether any process changes required	Initial assessment completed; will be updated for changes up to Q4 2010	No significant process changes identified
Determine if software is IFRS compliant; identify any upgrades, changes or additions required	Completed	A fixed asset register that integrates with the accounting system has been purchased and is currently being implemented
Assess whether any changes to the general ledger required	To be completed by Q2 2010	Analysis underway in conjunction with first draft of financial statements; module for the accounting system has been purchased to facilitate any changes
Assess ability to gather data for ongoing disclosures	To be completed by Q4 2010	Application and development team within IT group has been assembled; required reports being identified
Prepare first time adoption reconciliations required for IFRS 1	To be completed by Q4 2010	Not yet started; will begin in conjunction with first draft of financial statements
Business activities		
Assess effect on financial covenants	To be completed by Q2 2010 to allow adequate time for negotiations if necessary	Analysis underway, changes are not expected to have a significant effect
Assess effect on budgeting and planning process	To be completed by Q3 2010	Analysis underway, changes are not expected to have a significant effect
Assess effect on compensation plans	To be completed by Q3 2010	Analysis underway, changes are not determinable at this time
Assess effect on customer and supplier contracts	To be completed by Q2 2010 to allow adequate time for negotiations if necessary	Analysis underway, changes are not expected to have a significant effect
Assess needs for IFRS related training	To be completed by Q4 2010	IFRS training delivered to IFRS convergence team and finance group
Control environment		
Determine whether any changes required to internal controls over financial reporting for all accounting policy changes	To be completed by Q4 2010	Analysis underway, changes are not expected to have a significant effect
Determine whether any changes required to disclosure controls and procedures for all accounting policy changes	To be completed by Q4 2010	Analysis underway, changes are not expected to have a significant effect

The following are the significant areas expected to change Savanna's current accounting policies on conversion to IFRS:

Joint ventures

Savanna has made assessments regarding its jointly-controlled partnerships based on the current IASB exposure draft on joint arrangements. This exposure draft is expected to become an IFRS in the first half of 2010. Based on the changes the Company will no longer proportionately consolidate its jointly-controlled partnerships and will instead account for these joint ventures as equity investments. The change in accounting method will result in each of the line items in the table below decreasing by the amount shown and only Savanna's share of the income from the partnerships will appear in the statement of earnings and only Savanna's equity investment in the partnerships will appear on the balance sheet.

	2009	2008
	$	$
Current assets	**2,668**	5,198
Capital and other assets	**27,919**	27,948
Current liabilities	**2,639**	895
Long-term debt	**2,724**	4,519
Revenue	**9,640**	20,507
Expenses	**9,400**	18,944
Net earnings	**240**	1,562

Componentization of property and equipment

The significant components of the Company's property and equipment have been identified and a componentization model has been developed. Depreciation policies will be changed to mirror each significant component which will likely increase depreciation expenses under IFRS; although the increases are not expected to be significant.

Impairment of assets

Savanna has identified its cash generating units to be used in assessing impairments under IFRS. These cash generating units are smaller than the operating segments that the Company uses to test for impairment under Canadian GAAP.

Stock-based compensation

There are no significant differences in how Savanna accounts for stock-based compensation under Canadian GAAP and IFRS except as it pertains to the Company's DSU's. Currently DSU's are valued on a mark-to-market basis, which is also known as their intrinsic value. Under IFRS DSU's will be accounted for at fair value which considers both the intrinsic value and time value of the DSU. The fair value of the Company's DSU liabilities will be measured at each reporting period using an option pricing model until the DSU is settled; which differs from stock-options which are fair valued at their grant date only. The change is not expected to have a material effect on net earnings.

The following are the optional exemptions from full retrospective application of IFRS allowed for under IFRS 1 that the Company expects to apply on conversion to IFRS:

Business combinations

This exemption allows for the Company to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, the carrying amounts of assets and liabilities arising on business combinations occurring before the conversion date will not be changed.

Fair value or revaluation as deemed cost

This exemption allows for the Company to use the fair value of a class of capital assets as the deemed cost of that asset on conversion. The Company will likely only apply this exemption to a very small portion of its capital assets; for most of Savanna's capital assets historical costs will be used.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the period in which the annual and interim filings of the Company are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As of December 31, 2009, an evaluation of the effectiveness of the Company's DC&P was conducted by and under the supervision of the Company's management including the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P are effective at December 31, 2009 and provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the period in which the annual and interim filings of the Company are being prepared.

The CEO and CFO do not expect that the DC&P will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

In addition to DC&P, the CEO and CFO have designed internal controls over financial reporting ("ICFR") or caused them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design and effectiveness of these controls have been evaluated by and under the supervision of the Company's management, including the CEO and the CFO, using the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR as of December 31, 2009 are effective and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Company's ICFR may not prevent or detect all errors, misstatements and fraud. The design of internal controls must take into account cost-benefit constraints. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. While the Company is continually enhancing its ICFR, no material changes were made during the year ended December 31, 2009 that would materially affect or are reasonably likely to materially affect the Company's ICFR other than the design and implementation of ICFR within certain business units acquired in 2008 which were completed during the second quarter of 2009.

Despite recent signs of improving industry conditions, the timing of a general recovery of the North American drilling and oilfield services markets remains unclear. The timing of recovery in shallow drilling, historically a key driver of Savanna's activity, is even more uncertain. With a fleet of 44 hybrid drilling rigs in Canada, Savanna remains very leveraged to this recovery. Our hybrid design, with its built-in capacity to drill with drill-pipe, casing or coiled-tubing in a highly efficient manner, continues to set the standard for versatility, efficiency and speed as a drilling tool, and is well positioned to perform once market demand returns. However, Savanna is not simply waiting for a turnaround in North America. Rather, through continued innovation to improve the efficiency and breadth of application of both the drilling and well servicing fleet, both in Canada and particularly abroad, the Company is making every effort to generate the strong return on its drilling assets that it has been able to historically.

In particular, as we move into 2010 and beyond, Savanna's growth and capital efforts are focused on continued strategic placement of our deeper double conventional drilling and well servicing assets throughout our existing core areas in North America. Incremental rig construction or acquisition of high specification double drilling rigs remains a focus.

In respect of our hybrid drilling fleet, the challenges are clearly different. This fleet has suffered from sub-economic activity levels for over two years. While we remain confident that shallow drilling in our historic Canadian market will eventually recover, the nature and timing of this recovery remains highly uncertain. To address this, Savanna continues to focus on developing international opportunities for our fleet. Our recent contract award in Australia has created a strong base to grow our presence in a high-growth basin ideally suited to our hybrid drilling technology.

As evidenced by our capital commitment to retrofit another 2 hybrid rigs for Australia, we fully expect to deploy additional rigs to that region. In addition, Savanna has identified several other prospective international areas attractive for introduction of the hybrid as well. At the same time, Savanna is executing on its commitment to improve the application and utilization of the hybrid fleet domestically through improved directional and horizontal capabilities for the rigs and increased application of the rigs to shallow oil drilling, specifically heavy oil areas.

Finally, we are also pursuing conversion of two of our hybrid rigs to deeper-oriented conventional rigs. We believe we can accomplish this conversion for approximately 40% of the cost of an equivalently capable Range III drilling rig and use this drilling platform as an entrant to a drilling category we do not currently participate in. Overall, our strategic intent of reducing our domestic shallow drilling fleet exposure by one-half over the next two years remains on track.

Ultimately, the level of activity in both Canada and the United States will not fully recover until a supply-demand balance for natural gas is achieved, and prices for the commodity recover. In the interim, Savanna will continue to aggressively monitor its cost structure and focus on best positioning itself to take advantage of the eventual return of a better operating environment. Savanna believes it has the high quality people, equipment, leading-edge technology and First Nations partnerships to manage the challenging conditions affecting the oilfield services industry.

(1) Operating margin, operating cash flows before changes in working capital, working capital, EBITDA, debt-to-equity ratio, and net debt are not recognized measures under GAAP, and are unlikely to be comparable to similar measures presented by other companies. Management believes that, in addition to net earnings, the measures described above are useful as they provide an indication of the results generated by the Company's principal business activities prior to consideration of how those activities are financed and how the results are taxed in various jurisdictions.

- Operating margin is defined as revenue less operating expenses.
- Operating margin percent is defined as revenue less operating expenses divided by revenue.
- Operating cash flows before changes in working capital is defined as cash flows from operations less changes in non-cash working capital.
- Working capital is defined as total current assets less total current liabilities excluding the current portions of long-term debt.
- EBITDA is defined as earnings before interest, income taxes, depreciation, amortization and stock-based compensation.
- Debt-to-equity ratio is defined as long-term debt, including the current portions thereof, divided by shareholders' equity.
- Net debt is defined as long-term debt, including the current portions thereof, less working capital.

(2) As a result of the change in depreciation methodology outlined under "Accounting Policies" in this MD&A, the following increases (decreases) to financial line items occurred:

(Stated in thousands of dollars, except per share amounts)

	For the quarters ended		For the years ended		Prior to	As at	As at
	Dec-31 2009	Dec-31 2008	**Dec-31 2009**	Dec-31 2008	Jan-1 2008	**Dec-31 2009**	Dec-31 2008
	$	$	**$**	$	$	**$**	$
Depreciation and amortization expense	**(559)**	(375)	**(3,362)**	(575)	(74)		
Future income tax expense	**157**	105	**941**	167	23		
Net earnings	**402**	270	**2,421**	408	51		
Per share: basic	**0.01**	–	**0.03**	0.01	–		
Per diluted share	**0.01**	–	**0.03**	0.01	–		
Property and equipment						**4,011**	649

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements contained in this MD&A, including statements related to the Company's 2010 capital expenditures, international growth opportunities, the potential for acquisitions and new rig construction, the impact of rig deployments on the Company's long-term positioning, the flexibility of the Company's financial position heading into 2010, outlook for future oil and gas demand and prices, cyclical industry fundamentals, drilling and completion activity levels, the Company's ability to meet debt repayments and fund future obligations and capital expenditures, the Company's IFRS changeover plan and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "likely", "estimate", "predict", "potential", "continue", "maintain", "retain", "grow", and similar expressions and statements relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. In particular, the Company's expectation of uncertain demand and prices for oil and natural gas and the resulting depressed industry activity in 2010 with an emphasis of such reduction on gas directed drilling, especially in the shallow basins, is premised on the Company's customers' reductions to their capital budgets, the focus of its customers' on oil directed drilling opportunities in the current natural gas pricing environment and the impact of the recent global financial crisis on its customers' ability to access capital and on economic activity which translates into demand for oil and gas. Further, the Company's expectation of funding future obligations and capital expenditures is premised on renewing its revolving debt facility in 2010, realizing its working capital and generating cash flows at current levels or better which in turn is premised on the pricing of the Company's services remaining at or improving from present levels while maintaining its current cost structure. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for well servicing and contract drilling; the effects of weather conditions on operations and facilities; the existence of competitive operating risks inherent in well servicing and contract drilling; general economic, market or business conditions; changes in laws or regulations, including taxation, environmental and currency regulations; the lack of availability of qualified personnel or management; the other risk factors set forth under the heading "Risks and Uncertainties" in this MD&A and under the heading "Risk Factors" in the Company's Annual Information Form and other unforeseen conditions which could impact on the use of services supplied by the Company.

Consequently, all of the forward-looking information and statements made in this MD&A are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. Except as may be required by law, the Company assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events, or otherwise.

FINANCIALS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of Savanna. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, transactions are properly authorized and assets are safeguarded from loss or unauthorized use.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

Ken Mullen
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Darcy Draudson
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

To the Shareholders of Savanna Energy Services Corp.:

We have audited the consolidated balance sheets of Savanna Energy Services Corp. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of net loss, retained earnings (deficit), comprehensive loss, accumulated other comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
MARCH 5, 2010
CALGARY, ALBERTA

CONSOLIDATED STATEMENTS OF NET LOSS

For the years ended December 31
(Stated in thousands of dollars, except per share amounts)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$ Restated Note 3(e)
REVENUE		
Sales and services	**256,619**	460,101
EXPENSES		
Operating	**199,007**	320,821
General and administrative	**20,517**	27,597
Stock-based compensation *(Note 14(f))*	**4,450**	3,980
Depreciation and amortization	**35,814**	45,328
Interest on long-term debt	**5,119**	6,979
Other expenses	**433**	1,690
Impairment loss *(Notes 7 and 8(a))*	**27,370**	319,365
	292,710	725,760
LOSS BEFORE INCOME TAXES	**(36,091)**	(265,659)
INCOME TAXES *(Note 11(a))*		
Current	**(7,034)**	(2,750)
Future	**(1,164)**	17,751
	(8,198)	15,001
NET LOSS	**(27,893)**	(280,660)
NET LOSS PER SHARE *(Note 14(g))*		
Basic – net loss	**(0.40)**	(4.73)
Diluted – net loss	**(0.40)**	(4.73)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

For the years ended December 31
(Stated in thousands of dollars)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$ Restated Note 3(e)
Retained earnings (deficit), beginning of year	**(118,960)**	167,626
Dividends declared	**(6,902)**	(5,926)
Net loss	**(27,893)**	(280,660)
Deficit, end of year	**(153,755)**	(118,960)

CONSOLIDATED BALANCE SHEETS

December 31
(Stated in thousands of dollars)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$ Restated Note 3(e)
ASSETS		
Current		
Cash	**4,480**	4,178
Accounts receivable *(Note 20(c))*	**78,409**	111,255
Income taxes receivable	**9,065**	7,420
Inventory *(Note 5)*	**4,195**	6,032
Prepaid expenses and deposits	**1,969**	1,877
	98,118	130,762
Notes receivable *(Note 6)*	**9,630**	9,420
Property and equipment *(Note 7)*	**862,251**	889,158
Intangibles and other assets *(Note 8)*	**7,160**	8,891
	977,159	1,038,231
LIABILITIES		
Current		
Bank indebtedness *(Note 9)*	**11,228**	585
Accounts payable and accrued liabilities	**35,874**	44,567
Current portion of long-term debt *(Note 10)*	**7,512**	18,056
	54,614	63,208
Deferred net revenue *(Note 6)*	**1,647**	1,647
Long-term debt *(Note 10)*	**62,595**	184,218
Future income taxes *(Note 11(b))*	**77,287**	80,484
	196,143	329,557
Commitments and contingencies *(Notes 12 and 13)*		
SHAREHOLDERS' EQUITY		
Share capital *(Note 14(b))*	**911,764**	789,841
Contributed surplus *(Note 14(c))*	**20,135**	16,483
Deficit	**(153,755)**	(118,960)
	778,144	687,364
Accumulated other comprehensive income	**2,872**	21,310
	781,016	708,674
	977,159	1,038,231

Approved by the Board

Ken Mullen
DIRECTOR

Kevin Nugent
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31
(Stated in thousands of dollars)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$ Restated Note 3(e)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**(27,893)**	(280,660)
Items not affecting cash:		
Stock-based compensation *(Note 14(f))*	**4,450**	3,980
Depreciation and amortization	**35,814**	45,328
Impairment loss *(Notes 7 and 8(a))*	**27,370**	319,365
Amortization of other assets *(Note 8(b))*	**2,326**	1,208
Future income taxes *(Note 11(a))*	**(1,164)**	17,751
Unrealized foreign exchange gain	**–**	(254)
Loss on disposal of assets	**169**	901
	41,072	107,619
Change in non-cash working capital *(Note 16(b))*	**22,207**	(47,516)
Cash flows from operations	**63,279**	60,103
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued, net of share issue costs *(Note 14(b))*	**120,031**	2,552
Shares repurchased *(Notes 14(b) and 14(c))*	**–**	(8,630)
Issuance of long-term debt	**25,000**	226,745
Repayment of long-term debt	**(146,982)**	(93,986)
Dividends paid	**(6,902)**	(7,415)
Change in notes receivable	**(210)**	(808)
Change in working capital related to financing activities *(Note 16(b))*	**–**	1,489
Cash flows from (used in) financing activities	**(9,063)**	119,947
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(64,471)**	(77,440)
Proceeds on disposal of assets	**1,520**	1,990
Cash paid on acquisitions, net of cash acquired *(Note 4)*	**–**	(90,355)
Purchase of intangibles and other assets	**(1,753)**	(4,719)
Change in working capital related to investing activities *(Note 16(b))*	**147**	1,999
Cash flows used in investing activities	**(64,557)**	(168,525)
INCREASE (DECREASE) IN CASH, NET OF BANK INDEBTEDNESS	**(10,341)**	11,525
CASH, NET OF BANK INDEBTEDNESS, BEGINNING OF YEAR	**3,593**	(7,932)
CASH, NET OF BANK INDEBTEDNESS, END OF YEAR	**(6,748)**	3,593

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31
(Stated in thousands of dollars)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$ Restated Note 3(e)
NET LOSS	**(27,893)**	(280,660)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustment	**(29,220)**	29,516
Unrealized foreign exchange gain (loss) on net investment hedge, net of tax of $111 (2008 – net of tax benefit of $1,572)	**10,782**	(8,206)
COMPREHENSIVE LOSS	**(46,331)**	(259,350)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

For the years ended December 31
(Stated in thousands of dollars)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

	2009	2008
	$	$
Accumulated other comprehensive income, beginning of year	**21,310**	–
Other comprehensive income (loss)	**(18,438)**	21,310
Accumulated other comprehensive income, end of year	**2,872**	21,310

NOTE 1 > DESCRIPTION OF BUSINESS

Savanna Energy Services Corp. (the "Company" or "Savanna") was incorporated under the Alberta Business Corporations Act on March 22, 2001, to provide a variety of services in the oil and natural gas industry. Savanna operates through a number of wholly-owned subsidiaries and 50/50 limited partnerships which are managed through three reportable operating segments: corporate, services, and drilling.

NOTE 2 > BASIS OF PRESENTATION

The consolidated financial statements of Savanna have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated. The results of operations and cash flows for the years ending December 31, 2009 and 2008 include the results of all acquisitions (Note 4) from their dates of acquisition.

NOTE 3 > SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Partnerships

The Company conducts a portion of its operations in the drilling and services divisions through limited partnerships. The Company accounts for its interests in these partnerships on a proportionate consolidation basis as these partnerships are jointly-controlled entities.

In certain circumstances, the Company will build and sell interests in drilling or well servicing rigs and related equipment to these partnerships. Such sales may be transacted directly with the partnership or with the other partners. The Company eliminates its proportionate share of transactions with the limited partnerships.

b) Revenue Recognition

Revenue from drilling, well servicing and other oilfield services is recognized upon delivery of service to customers and is calculated on a daily or hourly basis. Cost recoveries billed to customers are included as both revenue and operating expenses and are not netted. The customer contract terms do not include a provision for post-delivery obligations.

Revenues include, as appropriate, the proceeds from the sales of the interests in drilling or well servicing rigs and related equipment sold to partners. Net profits on rig sales related to amounts that remain receivable from the partners or partnerships are deferred and recognized once collection is reasonably assured. All other sales of rigs are recognized upon completion of the transaction and transfer of beneficial ownership to the acquirer.

c) Cash and Bank Indebtedness

Cash consists of cash held in banks. Bank indebtedness consists of temporary overdrafts, operating facilities and cheques written in excess of funds. Classification as cash or bank indebtedness depends on the financial institution in which the consolidated balance is held, except for balances held through jointly-controlled partnerships. Balances held through jointly-controlled partnerships are classified on an individual basis rather than as a consolidated group.

d) Inventory

The Company's inventory includes parts and operating supplies valued at the lower of cost, determined on a weighted average basis, and net realizable value.

Inventory also includes drilling or well servicing rigs constructed and under construction and related equipment for sale to third parties or jointly-controlled partnerships. The portion included in inventory is based on management's expectations of the percentage the Company will sell to a third party or jointly-controlled partnership. Inventory is valued at the lower of cost (less any income earned prior to sale) and estimated net realizable value.

e) Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is determined using the straight-line method beginning in the month of acquisition, except for drilling rigs and equipment which are depreciated based on the number of drilling days and well servicing rigs which are depreciated based on the number of operating hours.

Buildings	20 years straight-line
Field equipment – non-drilling or well servicing	10 to 15 years straight-line with salvage values of 10% to 20%
Drilling rigs and equipment	1,500 to 4,125 drilling days with a salvage value of 20%
Well servicing rigs	24,000 operating hours with a salvage value of 20%
Furniture and office equipment	3 to 5 years straight-line
Vehicles	3 to 5 years straight-line

Costs related to equipment under construction are capitalized when incurred. No depreciation is provided on assets under construction until those assets are substantially complete and ready for use.

Effective January 1, 2009, depreciation of well servicing rigs was changed to reflect an estimated useful life of 24,000 operating hours and a 20% salvage value. These rigs were previously depreciated on a straight-line basis over 10 to 15 years with a 20% salvage value. The change in methodology was made to provide more relevant information by depreciating the assets based on usage rather than straight-line over a set number of years as such a depreciation policy did not properly match the economic usage of the well servicing rigs. The change has been accounted for on a retrospective basis and more closely aligns the depreciation policies with those of the Company's drilling rigs which are depreciated based on operating days. As a result of the change, the following increases (decreases) to financial statement line items occurred and the Company restated the prior years as below:

	For the years ended		Prior to	As at	As at
	Dec-31 2009	Dec-31 2008	Jan-1 2008	**Dec-31 2009**	Dec-31 2008
	$	$	$	**$**	$
Depreciation and amortization expense	**(3,362)**	(575)	(74)		
Future income tax expense	**941**	167	23		
Net earnings	**2,421**	408	51		
Per share: basic	**0.03**	0.01	–		
Per diluted share	**0.03**	0.01	–		
Comprehensive income	**2,421**	408	51		
Retained earnings				**2,880**	459
Property and equipment				**4,011**	649
Future income tax liability				**(1,131)**	(190)

f) Goodwill

Goodwill is recorded at cost and is not amortized. The recorded amount of goodwill is tested for impairment, based on expected future cash flows of the reporting segment to which the goodwill is attributable, at least annually at year-end or whenever events or circumstances indicate a possible impairment, to ensure that the fair value is greater than, or equal to, book value. Any impairment is charged to income in the period in which it is determined.

Effective January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs", with no restatement of prior period financial statements. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition by profit-oriented enterprises. The Company's accounting policy with respect to goodwill was unchanged on adoption of this section.

g) Intangible Assets

Intangible assets consist of costs associated with securing Savanna's intellectual property rights as well as the value attributed to customer relationships and non-competition agreements arising on acquisitions completed by the Company. Intangible assets are amortized on a straight-line basis over the expected period of benefit (three to five years). Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. Any impairment is charged to income in the period in which it is determined.

The Company's accounting policy with respect to intangible assets was unchanged on adoption of CICA accounting standard 3064 (Note 3(f)). The new Section establishes standards for the recognition, measurement, presentation and disclosure of intangible assets by profit-oriented enterprises.

h) Other Assets

Other assets include rig re-certification costs which are being amortized on a straight-line basis over their expected useful lives (three to four years). Amortization expense related to re-certification costs is included in operating expenses in the consolidated financial statements. Other assets also include a long-term investment (Note 3(r)).

i) Impairment of Long-Lived Assets

On a periodic basis management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. An impairment loss is recognized when the carrying value of a long-lived asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

j) Asset Retirement Obligations

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of the carrying amount of the related property and equipment. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

As at December 31, 2009 and 2008, the estimated fair value of the asset retirement obligation for the Company's capital assets is nominal. Accordingly, no provision has been made for any asset retirement obligation.

k) Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences, which are the differences between the carrying amount of an asset and liability in the consolidated balance sheet and its tax base. The Company's future tax balances have been reflected at the substantively enacted tax rates which are expected to apply when the temporary differences between the accounting and tax balances of the Company's assets and liabilities are reversed. The amount of any future income tax assets recognized is limited to the amount that is more likely than not to be realized.

l) Stock-Based Compensation

The Company follows the fair value method of accounting, using the Black-Scholes option pricing model, whereby, compensation expense is recognized for the stock options on the date of granting, and amortized over the options' vesting period. All forfeited options are cancelled by the Company immediately and no stock-based compensation is recorded on these options in future periods and any unvested stock-based compensation in the current period is reversed.

Stock-based compensation expense also includes the value of deferred share units ("DSU's") held by directors and officers of the Company and outstanding at the end of the year. DSU's are recognized over the vesting period and are valued on a mark-to-market basis. DSU's will be settled in cash upon exercise or on the date a director ceases to be a director of the Company or within 120 days of termination of an officer. The recognition and valuation of DSU's results in stock-based compensation expense and a corresponding liability which has been included in accounts payable and accrued liabilities in the consolidated balance sheet.

m) Pension Arrangements

Defined contribution plan costs, which constitute the Company's major pension arrangement, are expensed by the Company in the period that the contributions are earned. The Company's defined contribution plan costs for the year ended December 31, 2009 were $539 (2008 – $689).

n) Earnings Per Share

Earnings per share are calculated using the weighted average number of shares outstanding. Diluted earnings per share are calculated using the treasury stock method where the deemed proceeds of the exercise of in the money options and the average unrecognized stock-based compensation are considered to be used to reacquire shares at an average share price for the period.

o) Comprehensive Income

Comprehensive income consists of net earnings (loss) and other comprehensive income (loss) ("OCI"). For the Company, OCI is comprised of the movement in the cumulative foreign currency translation adjustment balance and unrealized gains or losses on its net investment hedge. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income ("AOCI") is an equity category comprised of the cumulative amounts of OCI.

p) Foreign Currency Translation

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

Savanna's foreign operations are considered to be self-sustaining and are translated as follows: assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date and revenues and expenses are translated at rates prevailing when they were incurred. Exchange gains and losses arising on translation of the Company's foreign operations are recorded as foreign

currency translation adjustments in OCI. Amounts included in AOCI will be recognized in earnings when there is a reduction in the net investment of the foreign operation. Advances made to its foreign operations for which settlement is not planned or anticipated in the foreseeable future are considered part of the Company's net investment in its self-sustaining foreign operations. Accordingly, unrealized gains and losses from these advances are recorded in OCI.

q) Derivative Instruments

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices. Embedded derivatives are derivatives embedded in a host contract or other financial instrument. They are recorded separately from the host contract or financial instrument when their economic characteristics and risks are not clearly and closely related to those of the host contract or financial instrument. The terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not measured at fair value. The Company has not designated any derivative instruments or identified any embedded derivatives requiring separate recognition for the years ended December 31, 2009 and 2008.

r) Financial Instruments

All of the Company's financial instruments, including embedded derivatives, are initially recognized at fair value on the balance sheet and classified into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in OCI and are transferred to earnings when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Any transaction costs with respect to financial instruments are expensed in the period incurred.

Effective January 1, 2009, the Company adopted CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173"). EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. In addition, the Company adopted the CICA's amendments to accounting standard 3862, Financial Instruments – Disclosures which include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The new or amended guidance did not have any impact on the financial position or earnings of the Company.

The Company's financial instruments are listed as follows, according to their classification:

i) Cash is classified as held for trading and is measured at fair value. Gains and losses as a result of subsequent revaluations are recorded in net earnings.

ii) Accounts and notes receivable are classified as loans and receivables and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

iii) Long-term investments, when held, are classified as available for sale financial assets and are measured at fair value; subsequent changes in these fair values are recognized in OCI.

iv) Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other liabilities and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

The Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in its self-sustaining U.S. operations. The effective portion of the change in fair value of the hedging instrument is recorded in OCI; any ineffectiveness is recorded immediately in earnings. Amounts included in AOCI will be recognized in earnings when there is a reduction of the hedged net investment.

s) Use of Estimates and Accounting Policy Changes

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the depreciation period for property, equipment and intangible assets, the recoverability of property, equipment, intangible assets and goodwill, the provision of doubtful accounts and notes receivable, stock-based compensation expense and estimates in future income taxes. Actual results could differ significantly from these estimates.

Changes in accounting policies are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings.

The following are GAAP changes that have been issued by the CICA but are not yet effective:

The CICA Accounting Standards Board ("AcSB") confirmed that January 1, 2011 will be the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). Therefore, the Company will be required to report using the converged standards for its interim and annual financial statements in 2011; therefore the 2010 comparative figures must also comply with the new standards. The eventual changeover to IFRS represents a change due to new accounting standards and is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is continually assessing the effect of the planned convergence; however, the effect on the future financial position and results of operations is not reasonably determinable or estimable at this time. Leading up to the January 1, 2011 changeover date, the AcSB has or intends to harmonize certain Canadian accounting standards with IFRS. The following are additional standards that have been issued that will further harmonize Canadian standards with IFRS and are effective on the 2011 changeover date:

i) CICA Handbook Section 1582, "Business Combinations"; under the new section, the term "business" will be more broadly defined than in the existing standard, most assets acquired and liabilities assumed will be measured at fair value, any interest in an acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase will result in recognition of a gain, and acquisition costs must be expensed.

ii) CICA Handbook Sections 1601, "Consolidations" and 1602 "Non-controlling Interests". Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholder's equity and net income will be calculated without deducting non-controlling interest and instead net income is allocated between the controlling and non-controlling interests.

NOTE 4 > BUSINESS ACQUISITIONS

a) On October 1, 2008, the Company acquired the assets of a privately-held well servicing company for cash consideration of $6,500. The assets acquired include 3 well servicing rigs and related equipment.

b) On September 12, 2008, the Company acquired the assets of a privately-held oilfield services rental company for cash consideration of $20,000. Among the assets acquired were $10.1 million in land and buildings.

c) On June 16, 2008, the Company acquired the assets of a private U.S. drilling company for cash consideration of $60,351. The assets acquired include 5 drilling rigs and related equipment.

d) On January 31, 2008, the Company acquired a 50% interest in a drilling rig and related assets for cash consideration of $4,100. The rig was previously held in a limited partnership that was 50% owned by each of the Company and a First Nations community.

All of the acquisitions have been accounted for using the purchase method with the results of operations being included in the consolidated financial statements from the date of acquisition. The purchase price allocations are as follows:

	(a)	(b)	(c)	(d)	2008 Total
	$	$	$	$	$
Net assets acquired:					
Cash	–	–	–	596	596
Non-cash working capital	–	556	–	(387)	169
Property and equipment	5,847	18,681	56,018	3,810	84,356
Intangibles and other assets*	653	763	4,333	81	5,830
	6,500	20,000	60,351	4,100	90,951
Cash consideration	6,500	20,000	60,351	4,100	90,951
*Intangible assets deductible for tax	653	763	4,333	–	5,749

NOTE 5 > INVENTORY

	2009	2008
	$	$
Parts and operating supplies	**4,195**	6,032

No inventories were specifically pledged as security for the years ended December 31, 2009 and 2008; however all of the inventories were covered under the general security agreement of the Company's term revolving credit facility (Note 10(a)). For the year ended December 31, 2009, certain obsolete parts were written down to net realizable value. The $165 (2008 – $Nil) inventory write down is included in other expenses in these financial statements. Inventory was expensed through operating expenses during the year as follows:

	2009	2008
	$	$
Rigs and equipment built for sale, at cost	**–**	1,505
Parts and operating supplies	**2,628**	5,425
	2,628	6,930

NOTE 6 > NOTES RECEIVABLE AND DEFERRED NET REVENUE

	Interest Rate	Effective Rate	2009 Notes Receivable	2009 Deferred Net Revenue	2008 Notes Receivable	2008 Deferred Net Revenue
	%	%	$	$	$	$
Note receivable	P+5	7.25	**4,189**	**828**	3,967	828
Note receivable	P+5	7.25	**4,189**	**819**	3,967	819
Note receivable	10	10	**1,252**	–	1,486	–
			9,630	**1,647**	9,420	1,647

"P" denotes prime rate, which was 2.25% at December 31, 2009 (2008 – 3.50%).

All of the notes receivable arose from the sale of the interests in drilling and well servicing rigs and related equipment to partners or jointly-controlled partnerships. Net profits related to amounts that remain receivable are deferred and recognized once reasonable certainty regarding the collection of the related receivable exists. These notes must be paid in full before the partnerships make any cash distribution to the partners. The notes receivable are secured by the related equipment, the fair values of which exceed the amount of the notes. In 2009, the Company reclassified $2,450 (2008 – $2,070) of accrued interest receivable from accounts receivable to the above notes receivable.

NOTE 7 > PROPERTY AND EQUIPMENT

	2009 Cost	2009 Accumulated Depreciation	2009 Net Book Value	2008 Cost	2008 Accumulated Depreciation	2008 Net Book Value
	$	$	$	$	$	$
Land	**12,912**	–	**12,912**	12,815	–	12,815
Buildings	**27,809**	**3,573**	**24,236**	24,816	1,892	22,924
Field equipment	**977,948**	**157,568**	**820,380**	941,376	124,925	816,451
Equipment under construction	–	–	–	18,728	–	18,728
Furniture and office equipment	**5,135**	**3,057**	**2,078**	4,459	2,333	2,126
Equipment under capital leases	**3,319**	**674**	**2,645**	21,486	5,372	16,114
	1,027,123	**164,872**	**862,251**	1,023,680	134,522	889,158

In the fourth quarter of 2009 the Company determined that indications of impairment existed on its under utilized surface/coring drilling rigs and coil tubing service units. Through most of 2009 the oil and gas industry was negatively affected by external factors such as depressed oil and natural gas demand and pricing leading to lower industry activity levels and utilization rates. Despite recent signs of improving industry conditions overall, the market for theses types of equipment specifically remains uncertain.

As a result, an impairment loss of $25,832 has been included in the consolidated statement of net loss. The impairment losses are a result of management's best estimates of the sale values of this equipment on the open market and were based on information that was available at December 31, 2009. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control.

NOTE 8 > GOODWILL, INTANGIBLES AND OTHER ASSETS

	Cost	Accumulated Depreciation	2009 Net Book Value	Cost	Accumulated Depreciation	2008 Net Book Value
	$	$	$	$	$	$
Goodwill *(a)*	–	–	–	–	–	–
Intangible assets *(a)*	101	18	83	3,402	1,076	2,326
Rig re-certification costs *(b)*	10,048	4,069	5,979	8,338	1,773	6,565
Long-term investment *(c)*	1,098	–	1,098	–	–	–
	11,247	4,087	7,160	11,740	2,849	8,891

a) At December 31, 2009 and 2008 impairment tests were performed on intangible assets using primarily multiple period excess earnings analyses. At December 31, 2008 an impairment test was performed on goodwill using discounted future cash flows. These tests indicated that the carrying amounts of certain of these assets exceeded their fair value. The conditions which led to the impairment of goodwill and intangible assets were impacted by external factors such as a continuing low economic activity levels and depressed oil and natural gas demand and pricing which have negatively affected industry activity levels and utilization rates.

As a result, a loss of $1,538 (2008 – $9,740) relating to intangible asset impairment has been included in the consolidated statement of net loss. In 2008 a loss of $309,625 relating to goodwill impairment was included in the consolidated statement of net loss. The impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows and were based on information that was available at December 31, 2009 and 2008. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgement as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

During the year, amortization expense of $688 (2008 – $1,875) relating to intangible assets was included in depreciation and amortization expense in the consolidated statement of net loss.

b) During the year, amortization expense of $2,326 (2008 – $1,208) relating to rig re-certification costs was included in operating expenses in the consolidated statement of net loss.

c) In Q4 2009, the Company received preferred shares in one of its customers in exchange for the total amount owing from the customer to Savanna; the amount of the investment resulted from a decrease in trade accounts receivable of $2,762 and a decrease in the related allowance for doubtful accounts of $1,664.

NOTE 9 > BANK INDEBTEDNESS

	Interest Rate	Effective Rate	Authorized	**2009 Outstanding**	2008 Outstanding
	%	%	$	**$**	$
Swing-line operating facility (Note 10(a))	Note 10(a)	4.25	15,000	**10,255**	–
Limited partnership operating facilities (a)	P+1	3.25	1,200	**329**	585
Cheques written but not cashed	–	–	–	**644**	–
			16,200	**11,228**	585

"P" denotes prime rate, which was 2.25% at December 31, 2009 (2008 – 3.50%).

a) These operating facilities are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. These operating facilities are supported by either a general security agreement covering all assets of each limited partnership, or the accounts receivable of each limited partnership. These facilities are renewed annually at the banks' discretion.

NOTE 10 > LONG-TERM DEBT

	Monthly Principal Payments	Interest Rate	Effective Rate	Maturity Date	Authorized	**2009 Outstanding**	2008 Outstanding
	$	%	%		$	**$**	$
SAVANNA							
Term revolving credit facility *(a)*	(a)	(a)	4.25	(a)	205,000	**66,864**	193,042
Term non-revolving loans	–	–	–	–	–	**–**	2,859
Obligations under capital lease *(b)*	38	4.70-6.30	5.40	Sep-10-Jun-11	518	**518**	1,854
					205,518	**67,382**	197,755
LIMITED PARTNERSHIP FACILITIES *(c)*							
Term loans	79	7.25	7.25	Oct-11-Feb-12	1,868	**1,868**	2,772
Obligations under capital lease *(b)*	43	8.64	8.64	Feb-11	857	**857**	1,747
					2,725	**2,725**	4,519
Total long-term debt					208,243	**70,107**	202,274
Less: current portion						**7,512**	18,056
						62,595	184,218

a) The entire facility, which is with a syndicate of banks, is renewed every 365 days at the banks' discretion; however, if it is not renewed on the annual renewal date (September 26th), the facility reverts to a two-year term loan with a three-year amortization (2008 – three-year term loan with a four-year amortization), requiring quarterly payments. The facility was renewed in September 2009 and as a result the first required principal repayment, if not renewed in 2010, would be due in December 2010.

The total $220,000 (2008 – $250,000) facility is comprised of the $205,000 (2008 – $235,000) outlined in the table above and the $15,000 committed to the swing-line operating facility included in bank indebtedness in the consolidated financial statements (Note 9). Of the total amount outstanding on this facility $41,864 Canadian dollar equivalent (2008 – $88,042) was denominated in U.S. dollars. Subsequent to the end of the year, the total amount available under the facility was reduced to $175,000; $15,000 remains committed to the swing-line operating facility.

Borrowings under the facility may be made by way of prime rate based advances, bankers' acceptances, letters of credit, U.S. based rate or LIBOR advances. The facility bears interest at the banks' prime rate plus 1.25% to prime plus 2.50% (2008 – prime to prime plus 0.75%), bankers' acceptance, letter of credit, or LIBOR plus a 2.75% to 4.00% stamping fee (2008 – 0.75% to 2.25% stamping fee) which is dependent on certain financial ratios of the Company. A commitment fee of 0.55% to 0.80% (2008 – 0.15% to 0.35%) per annum is paid quarterly on the unused portion of the facility. The facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries, and a priority agreement with a commercial lender giving the banks priority on all assets of the Company and its subsidiaries. The Company was in compliance with all of its debt covenants as at December 31, 2009 (Note 15).

b) The obligations under capital lease are secured by the related equipment (Note 7).

c) The limited partnership facilities are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. Within the individual limited liability partnerships, the loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the limited partnerships.

Repayments required over the next three years are as follows:

	Long-term debt Principal	Obligations under capital lease Principal	Interest	Total
	$	$	$	$
For the years ending December 31, 2010	6,541	971	68	7,580
2011	23,187	404	7	23,598
2012	39,004	–	–	39,004
	68,732	1,375	75	70,182

NOTE 11 > INCOME TAXES

a) Income Tax Expense

The provision for income taxes differs from the result which would be obtained by applying the combined federal and provincial income tax rate of 29% (2008 – 30%) to the loss before income taxes. This difference results from the following:

	2009	2008
	$	$
Loss before income taxes	**(36,091)**	(265,659)
Computed income tax expense at the statutory rate	**(10,466)**	(78,369)
Increase (decrease) resulting from:		
Non-deductible expenses	**1,568**	1,652
Permanent differences relating to dispositions of property and equipment	**301**	(1,646)
Permanent differences relating to impairment losses	**111**	94,213
Income tax rate differential on foreign operations	**601**	1,226
Reduction in future income tax rates	**(621)**	(2,202)
Other	**308**	127
Income tax expense	**(8,198)**	15,001
Represented by:		
Current income taxes	**(7,034)**	(2,750)
Future income taxes	**(1,164)**	17,751
Income tax expense	**(8,198)**	15,001

b) Future Income Tax Assets and Liabilities

The components of the Company's future income tax assets and liabilities are a result of the origination and reversal of temporary differences and are comprised of the following:

	2009	2008
	$	$
Future income tax assets		
Unused non-capital losses*	**34,706**	16,605
Share issue and deferred financing costs	**1,867**	1,225
Deferred share unit plan	**297**	196
Future tax recovery on income from limited partnerships	**9,785**	–
Intangibles and other assets	**2,661**	866
	49,316	18,892
Future income tax liabilities		
Property and equipment	**(124,637)**	(98,211)
Future income taxes on income from limited partnerships	**–**	(715)
Unrealized foreign exchange loss on net investment hedge	**(1,966)**	(400)
Other	**–**	(50)
	(126,603)	(99,376)
Net future income tax liability	**(77,287)**	(80,484)
By jurisdiction:		
Canada	**(69,959)**	(73,333)
International	**(7,328)**	(7,151)
Net future income tax liability	**(77,287)**	(80,484)

* The Company has non-capital losses available for carry forward totaling $101,319 (2008 – $47,891), of which $69,563 (2008 – $27,856) relates to international entities and $31,756 (2008 – $20,035) relates to Canadian entities. The unused tax losses, which begin to expire in 2016, may be applied to reduce future taxable income and future income taxes payable.

NOTE 12 > COMMITMENTS

Commitments relating to office and shop premises are recorded as rent expenses in the period the monthly amounts relate to and are included in operating and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to operating vehicle and equipment leases are recorded as equipment rental expenses in the period the amounts relate to and are included in operating expenses and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to equipment purchases are recorded as capital asset additions at the time of payment.

Payments required in each of the next three years are as follows:

	$
For the years ending December 31, 2010	98,070
2011	2,180
2012	1,539
	101,789

NOTE 13 > CONTINGENCIES

At December 31, 2009, the Company was subject to legal claims with respect to the Company's patents. Subsequent to the end of the year Savanna entered into a definitive agreement to settle all outstanding patent and related civil litigation. The key terms of the settlement involve the withdrawal of the challenges to Savanna's Canadian Patent with respect to certain specific hybrid coiled tubing drilling technology and acknowledgement that Savanna is the owner of the patent. In exchange, the counterparties have received licenses to the hybrid coiled tubing drilling technology, subject to certain terms and conditions. The settlement of these legal claims was not material to the Company's financial position or operating results.

The Company was subject to additional legal claims at December 31, 2009 and, although the outcome of these matters is not determinable at this time, the Company believes the claims will not have any material adverse effect on the Company's financial position or operating results.

NOTE 14 > SHARE CAPITAL

a) Authorized

The Company has authorized an unlimited number of common shares, Class A common shares, and preferred shares.

b) Issued

	2009		2008	
	Shares	$	Shares	$
COMMON SHARES				
Balance, beginning of year	**58,953**	**789,841**	59,535	797,156
Issued for cash on a bought-deal basis	**20,125**	**126,788**	–	–
Issued for cash on exercise of stock options	–	–	192	2,552
Fair value of stock options exercised	–	–	–	489
Shares repurchased	–	–	(774)	(10,356)
Share issue costs, net of future tax benefit of $1,892	–	**(4,865)**	–	–
Balance, end of year	**79,078**	**911,764**	58,953	789,841

The Company has 5,846 (2008 – 5,846) common shares reserved for issue upon exercise of stock options.

On June 3, 2009 the Company issued 20,125 common shares at a price of $6.30 per share for gross proceeds of $126,788 on a bought-deal basis with a syndicate of underwriters.

The Company filed a normal course issuer bid in December 2007 which was approved by the Toronto Stock Exchange ("TSX") at that time and was renewed in December 2008. Under the renewal, Savanna was permitted to purchase up to 2,900 common shares of Savanna between December 17, 2008 and December 16, 2009, representing approximately 5% of the Company's issued and outstanding common shares. Purchases were made in the open market through the facilities of the TSX at market prices and were immediately cancelled. No shares were purchased or cancelled under normal course issuer bids in 2009 (2008 – 774 shares). The normal course issuer bid was not renewed following its expiry.

c) Contributed Surplus

	2009	2008
	$	$
Balance, beginning of year	**16,483**	11,246
Stock-based compensation	**3,652**	4,001
Fair value of options exercised (reclassified to share capital)	–	(489)
Shares repurchased	–	1,725
Balance, end of year	**20,135**	16,483

d) Deferred Share Unit Plan

The Company has a DSU plan for independent directors and officers of the Company. The DSUs are granted annually and represent rights to share value based on the number of DSUs issued. Under the terms of the plan, DSUs awarded to independent directors will vest immediately and those awarded to officers will vest equally over a three-year term on their anniversary date.

During 2009, 110 deferred share units (2008 – 41 units) were granted to independent directors and 2 units (2008 – 27 units) were granted to officers. In addition, 17 units (2008 – 10 units) were settled in cash totalling $112 (2008 – $221) to outside directors.

At December 31, 2009, there were 227 units (2008 – 132 units) outstanding and 212 units vested (2008 – 88 units) with a corresponding liability of $1,469 (2008 – $782) included in accounts payable and accrued liabilities.

e) Stock Option Plan

The Company has a stock option plan for the purpose of developing the interest of officers, employees and consultants of the Company and its subsidiaries in the growth and development of the Company by providing them with the opportunity, through stock options, to acquire an increased effective interest in the Company.

	2009		2008	
	Share Options	Weighted Average Exercise Price (per share) $	Share Options	Weighted Average Exercise Price (per share) $
Outstanding, beginning of year	**2,585**	**20.63**	2,011	19.73
Granted	**907**	**6.01**	1,099	19.31
Exercised	–	–	(192)	13.29
Cancelled	**(406)**	**16.99**	(333)	20.88
Outstanding, end of year	**3,086**	**16.82**	2,585	20.63

Of the 406 options (2008 – 333 options) cancelled during the year, 220 options (2008 – 78) had expired and 186 options (2008 – 255 options) were forfeited.

At December 31, 2009, 3,086 (2008 – 2,585) options were outstanding at exercise prices between $4.46 and $29.65 per share (2008 – $8.05 and $29.65 per share). The options expire from March 6, 2010 to July 14, 2013 and vest in equal amounts on their anniversary over three to five years. At December 31, 2009, 1,277 (2008– 905) options were exercisable at a weighted average exercise price of $22.16 (2008 – $22.30). The following table summarizes these details:

	2009			2008		
Exercise Price (per share)	**Number of Options Outstanding**	**Weighted Average Contractual Life (years)**	**Number of Options Exerciseable**	Number of Options Outstanding	Weighted Average Contractual Life (years)	Number of Options Exerciseable
$4.46 – $10.00	**918**	**3.5**	**14**	48	3.9	–
$10.01 – $15.00	**–**	**–**	**–**	103	0.4	103
$15.01 – $22.50	**1,772**	**1.9**	**896**	1,971	2.9	421
$22.51 – $29.65	**396**	**1.0**	**367**	463	1.7	381
	3,086	**2.3**	**1,277**	2,585	2.6	905

Compensation expense for stock options is recognized using the fair value when the stock options are granted, and is amortized over the option's vesting period for employees and the related service period for non employees. For options granted in 2009, the Company used the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2% (2008 – 4%), expected life of 3.5 years (2008 – 3.5 years), expected annual dividend $0.10 (2008 – $0.10) and expected volatility of 47% (2008 – 35%). The fair value of the options granted in the year was $1,778.

f) Stock-based Compensation Expense

	2009	2008
	$	$
Stock-based compensation expense relating to:		
Stock options	**3,652**	4,001
Deferred share units	**798**	(21)
	4,450	3,980

g) Reconciliation of Weighted Average Shares Outstanding

	2009	2008
	$	$
Basic weighted average shares outstanding	**70,532**	59,301
Effect of dilutive securities: Stock options	**–**	–
Diluted weighted average shares outstanding	**70,532**	59,301

The effect of dilutive securities with respect to stock options was anti-dilutive in 2009 and 2008 resulting in the same weighted average shares outstanding on both a basic and diluted basis.

NOTE 15 > CAPITAL MANAGEMENT

The capital structure of the Company consists of the following:

	2009	2008
	$	$
Long-term debt	**70,107**	202,274
Shareholders' equity	**781,016**	708,674
Total capitalization	**851,123**	910,948

Savanna's primary objective of managing capital, given the cyclical nature of the oil and gas services business, is to preserve the Company's financial flexibility in order to benefit from potential opportunities as they arise and in turn maximize returns for Savanna shareholders. This objective is achieved by: prudently managing the capital generated through internal growth; optimizing the use of lower cost capital; raising share capital when required to fund growth initiatives; and a conservative approach to safeguarding the Company's assets.

The Company's ability to access its term revolving credit facility and swing-line operating facility (Note 10(a)) is directly dependent, among other factors, on the following financial ratios: (i) total long-term debt to twelve month trailing EBITDA (EBITDA is defined as earnings before interest, income taxes, depreciation, amortization and stock-based compensation) of less than 2.75 and; (ii) total long-term debt to total capitalization (see table above) of less than 0.5. The computation of these ratios excludes amounts from certain non-guarantor subsidiaries and the limited partnerships owned 50% by the Company. The Company was in compliance with all of its debt covenants as at December 31, 2009 and 2008. Subsequent to the end of the year the total long-term debt to EBITDA ratio was amended to be less than 3.5 on a twelve month forward basis rather than on a trailing basis. Other than its debt covenants, the Company has no externally imposed capital requirements.

Additionally, the ability to raise capital through the issuance of equity could be restricted in the face of a reduction in oilfield service demand. Although Savanna cannot anticipate all eventualities in this regard, the Company maintains what it believes to be a conservatively leveraged balance sheet by maintaining a long-term debt to shareholders' equity ratio below 0.50 (see below). In certain circumstances the Company may need to increase this ratio in order to fund significant acquisitions or other significant expansions; however, the current level provides for considerable flexibility while maintaining a conservatively leveraged balance sheet.

	2009	2008
Long-term debt to shareholders' equity ratio	**0.09**	0.29

The Company intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust Savanna's capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, adjust the amount of dividends paid to align the dividend policy with shareholder expectations, raise debt or refinance existing debt with different characteristics.

NOTE 16 > SUPPLEMENTARY CASH INFORMATION

a) During the year the Company paid and received the following:

	2009	2008
	$	$
Cash interest paid	**(5,453)**	(6,742)
Cash interest received	**263**	74
Cash income taxes paid	**(2,749)**	(36,386)
Cash income taxes refunded	**9,361**	8,658

b) The net change in working capital items other than cash is as follows:

	2009	2008
	$	$
Accounts receivable	**29,672**	(14,306)
Inventory	**1,815**	1,740
Prepaid expenses and deposits	**(126)**	(807)
Accounts payable and accrued liabilities	**(8,557)**	(262)
Income taxes receivable	**(450)**	(30,393)
	22,354	(44,028)
Represented by:		
Cash flows from operating activities	**22,207**	(47,516)
Cash flows from financing activities	**-**	1,489
Cash flows from investing activities	**147**	1,999
	22,354	(44,028)

NOTE 17 > JOINTLY-CONTROLLED ENTITIES

As described in Note 3(a), the Company conducts a portion of its business through jointly-controlled partnerships. The Company accounts for its 50% interest in these jointly-controlled partnerships using the proportionate consolidation method. The total amounts and the major components of each of the following relate to the Company's interest in these partnerships:

	2009	2008
	$	$
Current assets	**2,668**	5,198
Capital and other assets	**27,919**	27,948
Current liabilities	**2,639**	895
Long-term debt	**2,724**	4,519
Revenue	**9,640**	20,507
Expenses	**9,400**	18,944
Net earnings	**240**	1,562
Cash flows from operating activities	**3,888**	3,779
Cash flows from financing activities	**(3,662)**	(3,909)
Cash flows from investing activities	**(936)**	(617)

NOTE 18 > SEGMENTED INFORMATION

The Company's reportable operating segments, as determined by management, are strategic operating units that offer different products and services. The Company has three reportable operating segments: corporate, services, and drilling.

The *corporate* segment provides management and administrative services to all its subsidiaries and their respective operations.
The *services* segment provides well servicing services and rental equipment to the oil and gas industry.
The *drilling* segment provides primarily contract drilling services to the oil and gas industry through both conventional and hybrid drilling rigs.

	Corporate	Services	Drilling	Inter-segment Eliminations	2009 Total
	$	$	$	$	$
REVENUE					
Oilfield services	–	59,551	199,177	(2,670)	**256,058**
Other	–	117	444	–	**561**
	–	59,668	199,621	(2,670)	**256,619**
OPERATING COSTS					
Oilfield services	–	44,697	156,980	(2,670)	**199,007**
REVENUE LESS OPERATING COSTS	–	14,971	42,641	–	**57,612**
Depreciation and amortization	1,622	9,559	24,633	–	**35,814**
Impairment loss	–	5,279	22,091	–	**27,370**
Interest on long-term debt	4,674	154	291	–	**5,119**
Loss before income taxes	(26,838)	(1,813)	(7,440)	–	**(36,091)**
Total assets	34,937	177,179	765,043	–	**977,159**
Capital assets(i)	23,682	157,153	688,576	–	**869,411**
Capital expenditures(ii)	3,128	6,457	56,639	–	**66,224**

(i) Capital assets include property and equipment, intangibles, and other assets.

(ii) Capital expenditures include the purchase of capital assets and capital assets acquired through business acquisitions in exchange for cash.

(Restated – Note 3(e))	Corporate	Services	Drilling	Inter-segment Eliminations	2008 Total
	$	$	$	$	$
REVENUE					
Oilfield services	–	84,201	373,785	(538)	457,448
Rig sales	–	1,600	–	–	1,600
Other	–	218	835	–	1,053
	–	86,019	374,620	(538)	460,101
OPERATING COSTS					
Oilfield services	–	57,487	262,367	(538)	319,316
Rig sales		1,505	–	–	1,505
	–	58,992	262,367	(538)	320,821
REVENUE LESS OPERATING COSTS	–	27,027	112,253	–	139,280
Depreciation and amortization	870	10,551	33,907	–	45,328
Impairment loss	–	19,392	299,973		319,365
Interest on long-term debt	6,118	233	628	–	6,979
Loss before income taxes	(13,930)	(9,950)	(241,779)	–	(265,659)
Total assets	32,067	197,955	808,209	–	1,038,231
Capital assets(i)	20,902	168,105	709,042	–	898,049
Capital expenditures(ii)	5,195	50,894	116,256	–	172,345

(i) Capital assets include property and equipment, intangibles, and other assets.

(ii) Capital expenditures include the purchase of capital assets and capital assets acquired through business acquisitions in exchange for cash.

The Company operates in two different geographical areas, the breakdown of which is as follows:

	Canada	**International(i)**	**2009 Total**	Canada	International(i)	2008 Total
	$	**$**	**$**	$	$	$
Revenue	**182,560**	**74,059**	**256,619**	373,958	86,143	460,101
Total assets	**765,563**	**211,596**	**977,159**	841,045	197,186	1,038,231
Capital assets(ii)	**677,518**	**191,893**	**869,411**	722,048	176,001	898,049

(i) Includes U.S. and Mexico operations.

(ii) Capital assets include property and equipment, intangibles, and other assets.

NOTE 19 > RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following related party transactions occurred:

a) In 2009 lease revenue, management fees and other fees in the amount of $1,276 (2008 – $2,696), net of inter-company eliminations, were received from partnerships that are owned 50% by the Company. Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of net loss.

b) In 2008 the Company provided a $3,035 home relocation loan to an officer who had relocated to another city on behalf of the Company. The full amount was due on June 30, 2009 and was interest free if paid by that date. In June 2009 the officer paid $1,612 on the loan. The remaining $1,423 is included in accounts receivable and bears interest at prime, which was 2.25% at December 31, 2009. The loan receivable is secured by a first charge mortgage over various properties owned by the officer, the fair value of which is estimated to exceed the fair value of the loan.

c) In 2008 the Company sold a 50% interest in a well servicing rig (cost $1,505) to a limited partnership that is 50% owned by the Company. The rig was sold in exchange for cash plus 50% of the previously unissued partnership units of the limited partnership.

The related party transactions in (a) above were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties. The related party transactions in (b) and (c) above were not in the normal course of operations and have been recorded in these financial statements at their carrying amounts.

NOTE 20 > FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, notes receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt. All of the Company's financial instruments were classified as either held for trading, loans and receivables or other financial liabilities. The fair values of the Company's financial instruments were determined as follows:

i) The carrying amounts of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.

ii) The fair values of the Company's notes receivable and long-term debt are estimated based on quoted market prices for the same or similar issues or current rates offered to the Company for similar financial instruments subject to similar risks and maturities. The fair values of these financial instruments are not materially different from their carrying amounts.

iii) The fair value of the Company's long-term investment has not changed from its initial recognition due to the short period of time since its recognition on November 20, 2009. The amounts and terms of the investment were agreed to by Savanna, several other investors and the investee and therefore represent fair value on the recognition date. On a forward basis the fair value of the Company's long-term investment will likely be estimated using a level 2 valuation.

The nature of these financial instruments and the Company's operations expose the Company to financial risks. Financial risk management is the responsibility of the Company's corporate finance function. The main objective of the Company's risk management process is to properly identify financial risks and minimize the exposure to potential losses arising from those risks. The nature of the Company's operations and the issuance of long-term debt expose the Company to risks of varying degrees of significance. The principal financial risks to which the Company is exposed are described in a) to d) below. The Company does not manage these risks through the use of derivative instruments.

a) Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in U.S. dollars and Mexican pesos. In addition, the Company's U.S. and Mexican subsidiaries are subject to translation gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's foreign operations are included in OCI. At December 31, 2009, the Company had $9,041 Canadian dollar equivalent (2008 – $12,434) of working capital denominated in foreign currencies. The Company also holds U.S. dollar denominated debt (Note 10(a)) which it uses to manage the exposure to foreign exchange gains and losses arising from the translation of its self-sustaining U.S. operations included in OCI.

The Company's sensitivity to foreign currency fluctuations for the year ended December 31, 2009 is as follows: all else being equal, a hypothetical strengthening of 5% of both the U.S. dollar and the Mexican peso against the Canadian dollar would have increased net earnings before income taxes by $216 (2008 – $10) and increased OCI by $8,551 (2008 – $3,843); for a 5% weakening of both the U.S. dollar and the Mexican peso against the Canadian dollar, there would be an equal and opposite effect on net earnings before income taxes and OCI.

b) Interest Rate Risk

The Company is exposed to interest rate risk on a portion of its notes receivable and long-term debt and does not currently hold any financial instruments that mitigate this risk. The Company's floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market interest rates. The Company's fixed-rate notes receivable and fixed-rate debt are subject to interest rate price risk, as the values will fluctuate as a result of changes in market interest rates. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates.

Of the Company's total notes receivable at December 31, 2009 16% was fixed-rate (2008 – 18%) and 84% was floating-rate (2008 – 82%). Of the Company's total debt at December 31, 2009, 4% was fixed-rate debt (2008 – 5%) and 96% was floating-rate debt (2008 – 95%). The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk. For the year ended December 31, 2009, all else being equal, the increase or decrease in net earnings before income taxes for each 1% change in interest rates on floating-rate notes receivable and floating-rate debt amounts to approximately $1,148 (2008 – $1,163).

c) Credit Risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers and partners in the form of outstanding accounts and notes receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

As stated above, the carrying amount of accounts receivable reflects management's assessment of the credit risk associated with its customers. The Company generally grants unsecured credit to its customers; however, the Company applies rigorous evaluation procedures to all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable. When a receivable balance is considered uncollectible it is written off against the allowance for doubtful accounts. Subsequent recovery of amounts previously written off is included in net earnings.

Based on the nature of its operations, Savanna will always have a concentration of credit risk as a substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. For the year ended December 31, 2009, ten customers comprised 54% of revenue (2008 - 48%) and 39% of accounts receivable (2008 - 53%). In the same period, one customer comprised 10% of revenue (2008 - 12%) and 5% of accounts receivable (2008 - 14%). At December 31, 2009, approximately 86% of trade accounts receivable had been outstanding for less than 90 days.

The following details the age of outstanding accounts receivable and the related allowance for doubtful accounts:

	2009	2008
	$	$
Trade accounts receivable:		
Not overdue (outstanding for less than 30 days)	32,113	45,120
Past due for more than one day but not more than three months	24,765	53,879
Past due for more than three months but not more than six months	1,381	3,609
Past due for more than six months	5,470	5,194
Less allowance for doubtful accounts	(4,538)	(6,603)
Accrued accounts receivable	12,649	5,849
Other accounts receivable*	6,569	4,207
	78,409	111,255

* Other accounts receivable consist of GST input tax credits, amounts due from 50% owned limited partnerships and a home relocation loan.

The change in the allowance for doubtful accounts is as follows:

	2009	2008
	$	$
Balance, beginning of year	(6,603)	(200)
Additional allowance	(260)	(6,703)
Amounts used	1,757	300
Changes due to changes in foreign exchange rates	568	-
Balance, end of year	(4,538)	(6,603)

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company maintains what it believes to be a conservatively leveraged balance sheet and can finance any future growth through one of or a combination of internally generated cash flows, borrowing under existing credit facilities, the issuance of debt or the issuance of equity, according to its capital management objectives. Given the Company's currently available liquid resources as compared to its contractual obligations, management assesses the Company's liquidity risk to be low. The expected maturities of the Company's contractual obligations, including interest, are as follows:

For the period ended	Jun-30 2010	Dec-31 2010	Dec-31 2011	2012	2013	Total
	$	$	$	$	$	$
Bank indebtedness	11,228	–	–	–	–	**11,228**
Accounts payable and accrued liabilities	35,874	–	–	–	–	**35,874**
Long-term debt*	2,503	7,966	25,773	40,247	–	**76,489**
Operating leases	1,223	1,453	2,180	1,539	–	**6,395**
Construction commitments	62,994	32,400	–	–	–	**95,394**
	113,822	41,819	27,953	41,786	–	**225,380**

* Assumes the Company's term revolving credit facility (Note 10(a)) is not renewed in 2010. Interest payments required on the term revolving credit facility are estimated based on an assumed static prime rate of interest.

For 2010 and the foreseeable future, the Company expects cash flow from operations, working capital and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

CORPORATE INFORMATION

BOARD OF DIRECTORS

G. Allen Brooks [1,2]
PRESIDENT
G. ALLEN BROOKS, LLC

John Hooks [1,3]
CHAIRMAN, PRESIDENT AND CEO
PHOENIX TECHNOLOGY INCOME FUND

Ken Mullen
PRESIDENT AND CEO
SAVANNA ENERGY SERVICES CORP.

Kevin Nugent [1,3]
PRESIDENT
LIVINGSTONE ENERGY MANAGEMENT LTD.

James Saunders [2] (Chairman)
PRESIDENT AND CEO
TWIN BUTTE ENERGY LTD.

Tor Wilson [2,3]
PRESIDENT AND CEO
BADGER INCOME FUND

[1] Audit Committee
[2] Corporate Governance and Nomination Committee
[3] Compensation Committee

OFFICERS

Ken Mullen
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Chris Oddy
VICE PRESIDENT OPERATIONS AND CHIEF OPERATING OFFICER

George Chow
EXECUTIVE VICE PRESIDENT, CORPORATE

Darcy Draudson
VICE PRESIDENT FINANCE AND CHIEF FINANCIAL OFFICER

Dwayne LaMontagne
EXECUTIVE VICE PRESIDENT AND CHIEF DEVELOPMENT OFFICER

Lori Connell
CORPORATE SECRETARY

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CALGARY, ALBERTA

STOCK EXCHANGE LISTING

TSX Symbol: SVY

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ANNUAL GENERAL MEETING

June 3, 2010, 2:00 pm (MDT),
The Metropolitan Centre,
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Calgary, Alberta

DESIGNED AND PRODUCED BY FOUNDRY CREATIVE INC.

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